

# THE LIBRARY OF CONGRESS

## FINANCIAL STATEMENTS

FISCAL 2004



## THE LIBRARIAN OF CONGRESS

The President of the Senate  
The Speaker of the House of Representatives

Sirs:

It is my pleasure to submit to you the Library's fiscal year 2004 financial statements and accompanying opinion of the independent auditors, Kearney & Company, P.C.

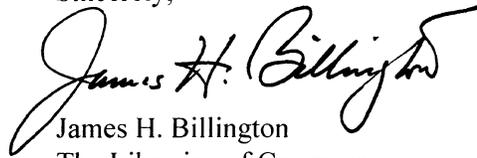
For the ninth consecutive year, the independent auditors have issued an unqualified "clean" opinion on the Library's consolidated financial statements. The net cost of the Library's six major programs totals \$607.2 million, including \$69.5 million in costs incurred by four other agencies (Architect of the Capitol, Government Printing Office, Office of Personnel Management, and Department of the Treasury) in support of the Library's programs. The net cost also includes \$104.4 million in earned revenue from copyright registration fees, cataloging distribution sales, and other fee-based and reimbursable programs.

In fiscal year 2004, the Library provided concerted congressional research support in more than 165 major policy areas (for example, the wars in Afghanistan and Iraq, global terrorism, intelligence reform) by handling more than 899,000 online and customized congressional inquiries and requests; recruited three new targeted members to the Global Legal Information Network; added major new acquisitions, including the culturally significant Kislak Mesoamerican Collection; awarded the inaugural \$1 million Kluge Prize in the Human Sciences; awarded \$14.5 million to eight lead institutions and their partners to identify, collect, and preserve historically important materials produced only in digital form for the National Digital Information Infrastructure and Preservation Program; added three new multimedia historical collections to the American Memory Web site; increased to more than 9.2 million the number of original primary documents of history freely available online; recorded more than 3.4 billion electronic transactions on the Library's Web sites; registered more than 661,000 copyright claims; added more than 2.6 million additional items to our collections, which grew to include more than 130 million items; began construction of the second module of the Library's offsite storage facility in Fort Meade, Maryland, while nearly doubling the number of items in Module One to more than 1.2 million; and circulated more than 24 million audio and braille books free to the blind and disabled.

The Library continues to improve its financial and management systems while placing great emphasis on ensuring the security of our staff and collections. We recognize the continued need to improve our computer and collections controls as documented in the accountability reports. In the information technology (IT) area, the Library will continue to improve computer security by implementing the IT security policy and plan, by instituting its certification and accreditation program and the continuity of operations plan. All of these programs were established in fiscal year 2004. With regard to collection security, ongoing measures will be augmented with new physical security devices (laser markings on discs and theft-detection targets on incoming books) and random checks of security measures.

We are pleased with the Library's stewardship of its financial affairs, and I am happy to bring this report to your attention.

Sincerely,

A handwritten signature in black ink that reads "James H. Billington". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

James H. Billington  
The Librarian of Congress

**THE LIBRARY OF CONGRESS**  
**FINANCIAL STATEMENTS FOR FISCAL YEAR 2004**

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THE LIBRARY OF CONGRESS

MANAGEMENT'S  
DISCUSSIONS AND ANALYSIS

**THE LIBRARY OF CONGRESS  
CONSOLIDATED FINANCIAL STATEMENTS  
Fiscal Year Ended September 30, 2004**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**INTRODUCTION**

The Management's Discussion and Analysis (MDA) is designed to provide a high level overview of the Library: who we are, what we do, and how we accomplished our mission during fiscal year 2004.

**THE LIBRARY OF CONGRESS AND  
ITS MISSION**

The Library of Congress, an agency in the legislative branch of the government, is the world's largest and most comprehensive library, maintaining a collection of more than 130 million items – many of them unique and irreplaceable – in more than 470 languages. It directly serves not only the Congress, but also the entire nation with the most important commodity of our time: information.

The Library's mission is to make its resources available and useful to the Congress and the American people and to sustain and preserve a universal collection of knowledge and creativity for future generations.

**STRATEGIC PLAN AND PRIORITIES**

The Library has six diverse programs, staffed by more than 4,000 people. They serve the Congress with nonpartisan analysis of legislative issues and preserve a universal record of intellectual creativity. All libraries – and especially the Library of Congress – must deal with the greatest upheaval in the transmission of information and knowledge since the invention of the printing press – the electronic onslaught of digitized multimedia communications. The Library is responding to this challenge, with the program-focused goals and outcomes contained in its 2004 –2008 strategic plan. The overall objective is to superimpose a new digital networked environment on top of its traditional artifactual collections while continuing to acquire, secure, preserve,

and make its invaluable collections accessible to Congress and the nation. The key objectives within the plan's 18 goals are: serving the Congress, sustaining and preserving our collections, getting the National Audio Visual Conservation Center completed and operational, implementing the Copyright Office's reengineered processes, converting to digital talking book technology for blind and physically handicapped persons, strengthening the digital competencies of our knowledge navigator – curators, and moving to a networked digital environment.

The Library's four priorities are:

1. To make information, knowledge and creativity available to and useful for the United States Congress;
2. To acquire, organize, preserve, secure, and sustain a comprehensive record of American history and creativity and a universal collection of human knowledge;
3. To make its collections maximally accessible to the Congress, the U. S. Government, and the public; and
4. To add interpretive and educational value to the Library's collections and enhance and highlight the Library's contributions to the nation's creative work, scholarly activity, and future progress.

**BRIEF HISTORY**

The Library of Congress is a living monument to the remarkable wisdom of the Founding Fathers who saw access to an ever-expanding body of knowledge as essential to a dynamic democracy. The Library's three buildings are named for Thomas Jefferson, John Adams, and James Madison. With the support of these

Presidents, the Congress, as soon as it moved to the new capital city of Washington in 1800, established the Library based on an initial collection of law and reference books, and established the Joint Committee on the Library as the first Joint Committee of the Congress in 1802.

Jefferson, in particular, took a keen interest in the new institution. After the British burned the Capitol and the Library during the War of 1812, Congress accepted Jefferson's offer to "recommence" the Library and purchase his multi-lingual 6,487-volume collection (then the finest in America) at a price of \$23,950. It contained volumes in many languages on a wide variety of subjects, from architecture to geography and the sciences. Anticipating the argument that his collection might seem too wide-ranging for Congress, Jefferson said that there was "no subject to which a Member of Congress might not have occasion to refer."

Jefferson's ideals of a "universal" collection and of sharing knowledge as widely as possible still guide the Library. With Congressional blessing and support, the Library has grown to serve the Congress and the nation more broadly in ways that no other library has ever done, largely as a result of four milestone laws: (1) the copyright law of 1870, which centralized the nation's copyright functions in the Library and stipulated that two copies of every book, pamphlet, map, print, photograph, and piece of music registered for copyright in the United States be deposited in the Library; (2) the 1886 authorization of the first separate Library of Congress building that contained openly accessible reading rooms and exhibition space for the general public; (3) the 1902 law that authorized the Library to sell its cataloging records inexpensively to the nation's libraries and thus massively help to subsidize the entire American library system; and (4) the 1931 law that established the program in the Library to create and supply free library materials to blind and physically handicapped readers throughout the country. The Congress thus established the basis both for the continued growth of the collections and for the extension of the Library's services to citizens everywhere.

In 1832, the Congress established the Law Library as the first separate department of the Library of Congress, reflecting the Library's origins as a collection of law books to support the legislative work of the Congress. The Law Library remains the only source for the Congress to research and reference services in foreign, comparative, and international law.

In 1914, Congress created the Legislative Reference Service (LRS) as a separate entity within the Library to provide specialized services to "Congress and committees and Members thereof." In 1946, the Congress granted LRS further statutory status within the Library and directed it to employ specialists to cover broad subject areas. Congress renamed LRS as the Congressional Research Service (CRS) in 1970 and enhanced its analytical capabilities by defining its policy role for the Congress and emphasizing research support to its committees.

More recently, a series of Congressional statutes have created within the Library of Congress the American Folklife Center (1976), the American Television and Radio Archives (1976), the national Center for the Book (1977), the National Film Preservation Board (1988), the National Film Preservation Foundation (1996), the Cooperative Acquisitions Program Revolving Fund (1997), the Sound Recording Preservation Board and Foundation (2000) and the authorization of three revolving funds for fee services (2000) -- further extending the Library of Congress' national role.

In December 2000, Congress tasked the Library (P.L. 106-554) to develop a plan and lead an effort to make sure that important digital materials can be preserved for our national information reserve. The new digital technology offers great promise, but it also creates an unprecedented surfeit of data in an unstable and ephemeral environment. The Library's National Digital Information Infrastructure and Preservation Program (NDIIPP) plan was approved by the Congress in December 2002 and envisions the establishment of a national network of committed partners, collaborating in a digital preservation architecture with defined roles and responsibilities. Over the next four years, the Library plans to seed practical projects and to sponsor research-advancing development of a national preservation infrastructure.

To begin building that infrastructure, the Library is developing (a) a preservation network of partners to preserve and provide long-term access to digital content and (b) the architecture components that will permit digital preservation. By establishing NDIIPP, Congress chose to capitalize on the Library's long history and unique position in analog selection and preservation to become a steward of the digital preservation infrastructure. As a trusted convener, the Library will continue to bring together all the stakeholders in this new digital landscape – creators, distributors, and users – to

build a digital preservation infrastructure that fosters creativity, protects the rights of individuals, and balances the claims of creators for protection and of users to access information and the legacy of innovation.

## THE LIBRARY OF CONGRESS TODAY

The core of the Library is its incomparable collections and the specialists who interpret and share them. The Library's 130 million items include almost all languages and media through which knowledge and creativity are preserved and communicated.

The Library has more than 29 million books and other print items, including 5,706 volumes printed before the year 1500; 12 million photographs; 4.8 million maps; 2.7 million audio materials; 957 thousand films, television, and video items, including the earliest movies ever made; five million pieces of music; 58 million manuscripts, including those of 23 Presidents of the United States; and hundreds of thousands of scientific and government documents.

New treasures are added each year. Notable acquisitions during fiscal year 2004 include: three rare globe gores by Johan Schoner; several thousand rare books, manuscripts, documents, maps and masterworks of pre-Columbian culture and colonial art from North and South America, spanning three millennia of Native American and European cultures, emphasizing the early contact period of 1500 in the Caribbean basin through the 1820s in Florida and the southern part of the United States; the papers of Herbert Block, including 175,000 items of manuscript (non-graphic) collection of correspondence, notes, drafts of writings, photographs and other papers; and the papers of conductor/composer Isaac Stern culminating a ten year effort to bring Stern's papers to the Library.

Every workday, the Library's staff adds some 10,000 new items to the collections after organizing and cataloging them and finds ways to share them with the Congress and the nation -- by providing on-line access across the nation, by assisting users in the Library's reading rooms, and by featuring the Library's collections in cultural programs.

Major annual services include delivering nearly 900,000 congressional research responses and services, registering more than 661,000 copyright claims, and circulating 23.8 million audio and braille books and magazines free to

blind and physically handicapped individuals all across America. The Library annually catalogs nearly 300,000 books and serials and provides the bibliographic record inexpensively to the nation's libraries, saving them millions of dollars annually.

The Library also provides free on-line access, via the Internet, to its automated information files, which contain more than 75 million records -- to Congressional offices, Federal agencies, libraries, and the public. The Library's Internet-based systems include major World Wide Web (www) services (e.g., Legislative Information System, THOMAS, [www.loc.gov](http://www.loc.gov), [www.AmericasLibrary.gov](http://www.AmericasLibrary.gov), Global Legal Information Network, the Library of Congress On-line Public Access Catalog (<http://catalog.loc.gov>), and various file transfer options.

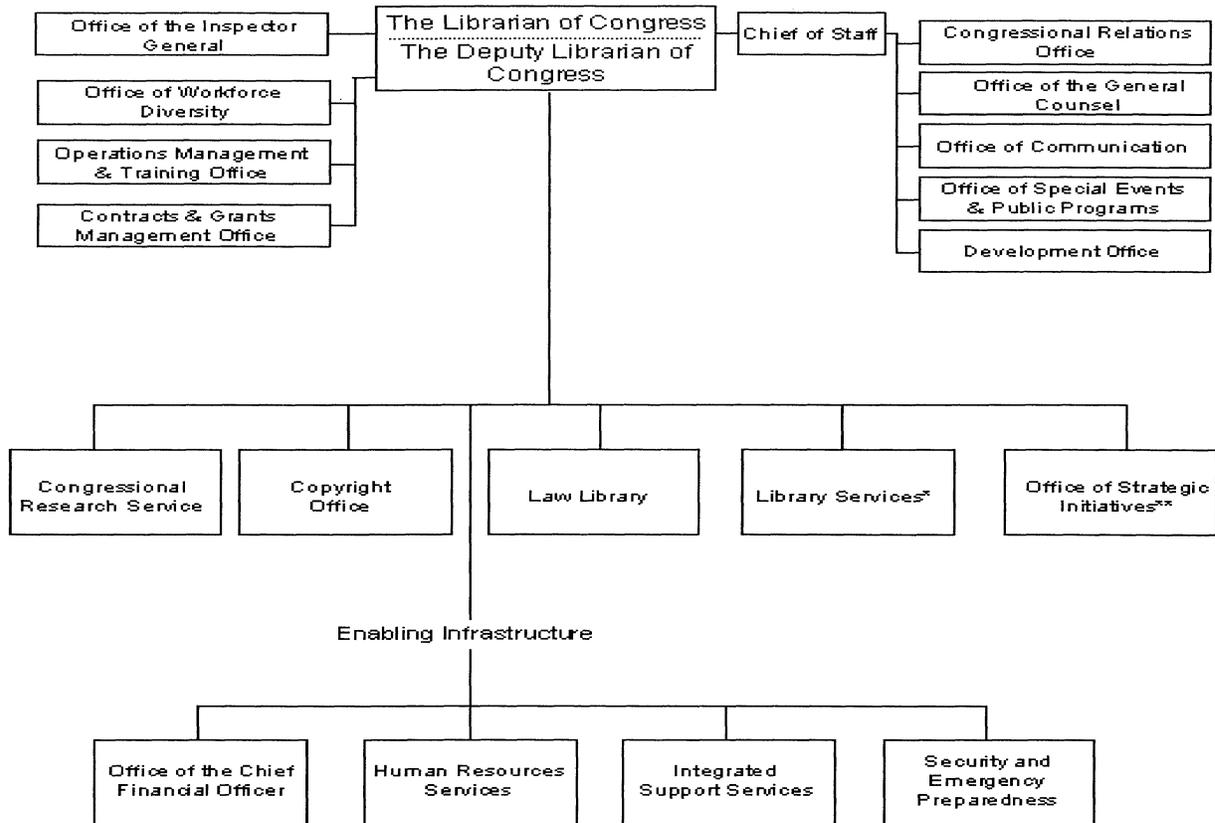
The Librarian of Congress, appointed by the President with the advice and consent of the Senate, directs the Library. The Deputy Librarian of Congress is the Chief Operating Officer who manages the day-to-day operations through five service units and an enabling infrastructure (see organizational chart).

The Library has six programs:

- National Library
- Law Library
- Copyright Office
- Congressional Research Service
- National Library Service for the Blind and Physically Handicapped
- Revolving and Reimbursable Funds

The Library of Congress programs and activities are funded by four salaries and expenses (S&E) appropriations which support congressional services, national library and law library services, copyright administration, library services to blind and physically handicapped people, and management support.

## Library of Congress



\*Includes National Library Service for the Blind and Physically Handicapped; Program Costs reported under National Library Program.

\*\*Includes Information Technology Services; Program costs reported under National Library Program and infrastructure costs are allocated.

## OVERVIEW OF FINANCIAL STATEMENTS

For fiscal years 2004 and 2003, the Library has prepared Consolidated Balance Sheets, Consolidated Statements of Net Costs, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources and Consolidated Statements of Financing (see Section 2).

### Consolidated Balance Sheets

The purpose of the consolidated balance sheet is to provide financial statement users with information about

the Library's assets, liabilities, and net position as of September 30, 2004 and 2003. In accordance with generally accepted accounting principles for federal government entities, the value of the Library's collections (our largest asset) is not calculated and reported with a monetary value. Instead, the Library prepares a Stewardship Report (see Section 3), which describes the collections and provides relevant information about their use, preservation, security, etc. The Library's Net Position consists of: (1) the portion of the Library's appropriations that are unexpended; and (2) the cumulative balances of gift, trust, revolving and reimbursable funds.

Assets (in millions)			Liabilities and Net Position (in millions)		
	2004	2003		2004	2003
Entity Assets	\$ 531.4	\$ 514.1	Liabilities Covered by Budgetary Resources	\$ 934.2	\$ 873.3
Non-Entity Assets	855.7	794.7	Liabilities Not Covered by Budgetary Resources	31.6	32.8
			Total Liabilities	965.8	906.1
			Net Position	421.3	402.7
<b>Total Assets</b>	<b>\$ 1,387.1</b>	<b>\$ 1,308.8</b>	<b>Total Liabilities and Net Position</b>	<b>\$ 1,387.1</b>	<b>\$ 1,308.8</b>

The Library's assets total \$1.4 billion for fiscal year 2004 and \$1.3 billion in fiscal year 2003. Entity assets increased by \$17.3 million during fiscal year 2004. Significant increases include \$3.7 million in equipment (primarily internal use software) and \$7.2 million of unrealized gains in the Library's non-Treasury investment. Non-entity assets (i.e., funds held and invested for future distribution to copyright owners) comprise 62 percent and 61 percent of all assets and total \$855.7 million and \$794.7 million for fiscal years 2004 and 2003, respectively. Non-entity (custodial) assets increased by \$61 million during fiscal year 2004 because current year royalty receipts were more than multiple prior-year royalty distributions to Copyright owners. The Library is authorized to invest the royalty funds in U.S. Treasury securities until the funds are distributed.

The Library's liabilities total \$965.8 million and \$906.1 million for fiscal years 2004 and 2003, respectively, with custodial and deposit account activities (i.e., funds held for future distribution to copyright owners) as the major item. The custodial liability increased following the increase in non-entity assets during fiscal year 2004. Other large liabilities include funds advanced from other

governmental agencies for the FEDLINK program and accounts payable for various operating expenses.

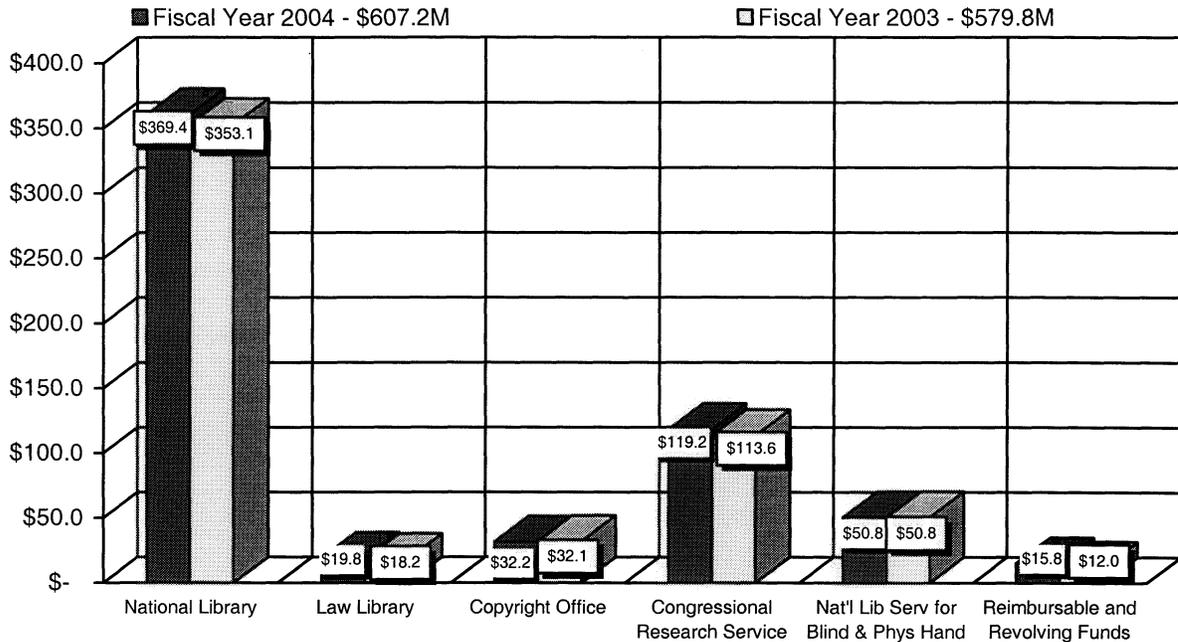
The accompanying Balance Sheets do not include the acquisition and improvement costs of the Library's buildings and grounds. By law, these buildings and grounds are under the structural and mechanical care of the Architect of the Capitol.

#### **Consolidated Statements of Net Costs**

The purpose of the Consolidated Statements of Net Costs is to provide financial statement users with information about the costs and earned revenues for the Library's six programs for the fiscal years ended September 30, 2004 and 2003. In other words, the statements present the net costs of our programs – \$607.2 million and \$579.8 million for the fiscal years 2004 and 2003, respectively. Net costs include allocated management support costs (e.g., human resources, financial services, facility services). In general, the Library's net costs increase each fiscal year because of annual employee cost-of-living payroll adjustments. The net costs for each of the Library's six programs are:

# The Library of Congress

## Consolidated Statement of Net Costs



**National Library** - With net program costs of \$369.4 million and \$353.1 million for fiscal years 2004 and 2003, respectively, National Library is the Library's largest program and is responsible for the traditional library activities of acquisitions, cataloging, research and reference, and preservation. The increase in net program costs is due to normal increases in operating activities.

National Library provides the following major services:

**Acquisitions** - Each year the Library acquires more than two million new items in all formats for addition to its priceless collections, which are the largest and most wide-ranging of any library in the world. The collections, and the information they contain, are the foundation for the many services the Library provides to the Congress and the nation.

**Cataloging** - The Library produces bibliographic records, standard, and related products for the Library as well as for libraries and bibliographic utilities in all fifty states and territories and many other countries.

**Research and Reference** - The Library makes available to scholars and other researchers vast information resources, many of which are unique, covering almost all

formats, subjects, and languages. The Library responds to nearly 700,000 information requests a year from across the nation, including more than 370,000 in person in the 21 reading rooms open to the public in Washington. In addition, the Library responds to some 67,000 free interlibrary loan requests from across the nation and nearly 30,000 requests for book loans from the Congress each year.

**On-line Access Services** -- The Library provides free on-line access via the Internet to its automated information files, which contain more than 75 million records -- to Congressional offices, Federal agencies, libraries, schools, and the public. Internet-based systems include three World Wide Web (www) services (e.g., THOMAS, [www.loc.gov](http://www.loc.gov)), the Library of Congress On-line Public Access Catalog (<http://catalog.loc.gov>), and various file transfer options. These Internet-based systems now record more than 250 million transactions a month.

**American Creativity** - The Library manages the nation's largest, most varied, and most important archival collection of American creativity including motion pictures, sound recordings, maps, prints, photographs, manuscripts, music, and folklore covering a wide range of

ethnic and geographic communities. The Library provides reference assistance to researchers and the general public, conducts field research, and promotes the preservation of American culture throughout the United States.

**Preservation** – The Library manages a continuing program to preserve and extend the life of all the diverse materials and formats in the Library's collections. The program provides a full range of prospective and retrospective preservation treatment for hundreds of thousands of items a year; conducts research into new technologies; emphasizes prevention techniques including proper environmental storage and training for emergency situations; conserves and preserves materials; and reformats materials to more stable media. The Library plays a key role in developing national and international standards that support the work of federal, state, and local agencies in preserving the nation's cultural heritage.

**Reading Promotion and Outreach** – The Library promotes books, reading, and literacy through the Library's Center for the Book, its affiliated centers in 50 states and the District of Columbia, and nearly 100 national organizational partners. The Library encourages knowledge and use of its collections through other outreach programs (cable TV, lectures, publications, conferences and symposia, exhibitions, poetry readings -- all primarily supported by private funding) and through use of the Library's home page on the World Wide Web. The Library also gives some 90,000 surplus books annually to qualified libraries and nonprofit educational institutions through its nationwide donation program. Finally the third National Book Festival was held on October 4, 2003 on the National Mall and had 60 to 70 thousand attendees – the most ambitious National Book Festival to date.

**Digital Initiatives** -- The Library oversees and coordinates cross-institutional digital initiatives, including the NDIIPP, thereby ensuring access over time to a rich body of digital content through the establishment of a national network of committed partners, collaborating in a digital preservation architecture with defined roles and responsibilities.

**Law Library** - The Law Library of Congress, with net program costs of \$19.8 and \$18.2 million for fiscal years 2004 and 2003, respectively, provides direct research service to the Congress in foreign, international, and comparative law. In addition to Members, Committees of the Congress and the Congressional Research Service, the

Law Library provides officers of the legislative branch, Justices of the Supreme Court and other judges, members of the Departments of State and Justice, and other federal agencies with bibliographic and informational services, background papers, comparative legal studies, legal interpretations, and translations. As its congressional priorities permit, the Law Library makes its collections and services available to a diverse community of users -- the foreign diplomatic corps, international organizations, members of the bench and bar, educational institutions, nongovernmental libraries, legal service organizations, and the general public -- serving more than 100,000 users annually.

**Copyright Office** - The Copyright Office (CO), with net program costs of \$32.2 and \$32.1 million for fiscal years 2004 and 2003, respectively, administers the U.S. copyright laws, provides copyright policy analysis to the Congress and executive branch agencies, actively promotes international protection for intellectual property created by U.S. citizens, and provides public information and education on copyright. In fiscal year 2004, the CO registered more than 661,000 claims to copyright, transferred more than one million works to the Library, recorded 14,979 documents containing more than 470,000 titles, logged almost 20 million electronic transactions to its Web site, and responded to over 381,000 in-person, telephone and e-mail requests for information. The CO convenes and supports Copyright Arbitration Royalty Panels for the purpose of (a) distributing hundreds of millions of dollars in royalties that are collected under various compulsory license provisions of the copyright law, and (b) adjusting the royalty rates of these license provisions. Registration fees and authorized reductions from royalty receipts fund almost half of the CO. Copies of works received through the copyright system form the core of the Library's immense Americana collections, which provide the primary record of American creativity.

**Congressional Research Service** - The Congressional Research Service (CRS), with net program costs of \$119.2 and \$113.6 million for fiscal years 2004 and 2003, respectively, provides non-partisan analytical research and information services to all Members and committees of the Congress. CRS works directly and exclusively for the Congress in support of its legislative functions. By maintaining a cost-effective, shared pool of expertise, CRS provides timely and balanced analyses of legislative proposals and public policy issues through provision of reports, tailored confidential memoranda, individual consultations and briefings - a comprehensive

source of information and analysis on almost any legislatively relevant subject. In 2004, CRS delivered nearly 900,000 research responses and services.

**National Library Service for the Blind and Physically Handicapped (NLS/BPH)** - The NLS/BPH, which is part of Library Services, manages a free national reading program for more than 750,000 blind and physically handicapped people -- circulating at no cost to users more than 23 million items a year. This program consists of three segments:

1. The Library of Congress selects and produces full-length books and magazines in braille and on recorded disc and cassette and contracts for the production of talking book machines. The NLS/BPH's fiscal years 2004 and 2003 net program costs for this segment were \$50.8 and \$50.8 million, respectively.
2. A cooperating network of 137 regional and sub regional (local) libraries distribute the machines and library materials provided by the Library of Congress.
3. The U.S. Postal Service receives an appropriation to support postage-free mail for magazines, books, and machines, which are sent directly to readers. Reading materials (books and magazines) and playback machines are sent to a total readership of more than 693,000 comprised of more than 500,000 audio and braille readers registered individually, in addition to an estimated 190,000 eligible individuals located in 36,000 institutions.

**Revolving and Reimbursable Funds** - Under the authority of 2 U.S.C. 182, the Library operates the Cooperative Acquisitions Program revolving fund, the revolving fund for duplication services associated with the audiovisual conservation center, the revolving fund for gift shop, decimal classification, photo duplication, and related services and the revolving fund for the Federal Library and Information Network (FEDLINK) program and Federal Research program. 2 U.S.C. 182 was amended in fiscal year 2003 to authorize the Library's special events and programs activities under the revolving fund statute. Through these activities, the Library is able to further its programs dealing with the acquisition of library materials, reader and reference services, and support for public programs. The Library also provides reimbursable accounting services for five

legislative agencies under cross-servicing agreements (i.e., the Congressional Budget Office, the Office of Compliance, the Capitol Preservation Commission, Abraham Lincoln Bicentennial Commission, and the Open World Leadership Center).

After reflecting earned revenues of \$73.1 and \$64.3 million in fiscal years 2004 and 2003, respectively, reimbursable and revolving fund net program costs totaled \$15.8 and \$12.0 million, respectively. The net program costs were the result of the elimination of \$7.3 and \$5.4 million of intra-Library net revenues, \$6.3 and \$5.5 million in allocated administrative overhead, and \$2.0 million and \$2.1 million in imputed inter-governmental costs (e.g., employee benefits) not recovered by fees charged by the revolving funds for fiscal years 2004 and 2003, respectively. General descriptions of major revolving fund activities are:

**Cooperative Acquisitions Program** - The Cooperative Acquisitions Program, which is operated by the Library's six overseas field offices, acquires foreign publications and research materials on behalf of participating institutions on a cost-recovery basis. Earned revenues were \$2.0 million for 2004 and \$2.3 million for 2003.

**Duplication Services** - Duplication Services provides preservation services for the Library's audio and visual collections, and products are also produced for sale to the general public. Earned revenues for both fiscal years 2004 and 2003 were \$0.6 million, of which \$0.4 million was for intra-Library transactions, which were eliminated for both years in the consolidated statements.

**Gift Shop, Decimal Classification, Photo Duplication, Special Events and Programs and related services** - This revolving fund provides for the operation of a gift shop or other sales of items associated with collections, exhibits, performances, and special events of the Library of Congress; decimal classification development services; the preservation and microfilming services for the Library's collections and reproduction services to other libraries, research institutions, government agencies, and individuals in the United States and abroad; and the hosting of special events and programs by corporate and non-profit entities that support the Library's mission. Earned revenues were \$6.7 and \$5.7 million in fiscal years 2004 and 2003, respectively, and intra-Library transactions of \$1.7 and \$1.1 million were eliminated during consolidation. The increase is primarily related to the aforementioned addition of the special events and

program activities to the revolving fund statute, as fiscal year 2004 was the first full year under the revolving fund.

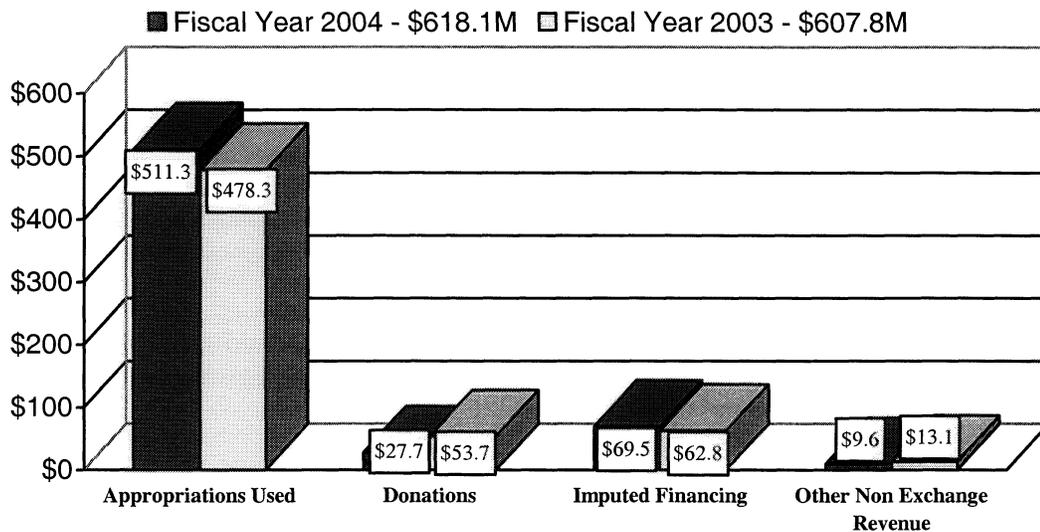
**The FEDLINK program and Federal Research program** – FEDLINK serves federal libraries and information centers as their purchasing, training and resource-sharing consortium. As the FLICC business subsidiary, the program provides cost effective access to an array of automated information and retrieval, print serials, books, electronic publications and preservation services. FEDLINK contracts with more than 100 major vendors to provide services to approximately 1,200 Federal offices participating in the program saving the offices an estimated \$8.9 million in cost avoidance benefits and more than \$11 million in vendor volume discounts. The Federal Research Program provides customized research services that the Library is uniquely able to perform as a result of its collections and the

subject and language expertise of its staff. A popular FRP product, available on-line via the Library's home page, is the country study series of books. In fiscal years 2004 and 2003, earned revenues were \$65.2 and \$55.2 million, respectively.

**Consolidated Statements of Changes in Net Position**

The purpose of the Consolidated Statements of Changes in Net Position is to provide financial statement users with information about the Library's financing sources and the components of the changes in net position. The Library's financing sources totaled \$618.1 million and \$607.8 million for the fiscal years ended September 30, 2004 and 2003, respectively.

**The Library of Congress**  
**Consolidated Statements of Changes in Net Position**  
 Total Financing Sources



The major source of the Library's funding is from Congressional appropriations for five programs: National Library, Law Library, Copyright Office, Congressional Research Service, and National Library Service for the Blind and Physically Handicapped. Appropriations used during the fiscal years ended September 30, 2004 and 2003 totaled \$511.3 and \$478.3 million or 83 and 79 percent, respectively, of all financing. The Library's donations decreased by \$26 million during fiscal year

2004 primarily due to one time donations of \$4.8 million in fiscal year 2003 for the Waldseemueller Map and \$19.4 million decrease in donated services of the Ad Council. Along with appropriations made directly to the Library, other government agencies (i.e., the Architect of the Capitol, the Office of Personnel Management, Government Printing Office) used Congressional appropriations and other financing sources to provide support for the Library's programs totaling an estimated

\$69.5 and \$62.8 million (imputed financing) for fiscal years 2004 and 2003, respectively. The support provided included structural care and maintenance of the Library's buildings and grounds (\$37.2 million and \$36.2 million), employee benefits (\$31.0 million and \$25.7 million), acquisitions exchange services (\$0.8 millions and \$0.7 million) and legal claims (\$0.4 million and \$0.2 million). Other non-exchange revenues are positive for fiscal year 2004 primarily due to the unrealized gains on non-treasury investments (\$7.2 million and \$10.8 million).

The Library's net position increased by \$18.7 million during fiscal year 2004, primarily due to the increase in market value of non-Treasury investments.

### **Combined Statements of Budgetary Resources**

The Combined Statements of Budgetary Resources and the related disclosures provide information about how budgetary resources were made available, as well as their status at the end of the period. The Budgetary Resources section of the statement presents the total budgetary resources available to the Library. The Status of Budgetary Resources section of the statement presents information about the status of budgetary resources at the end of the period. Finally, the Outlays section presents the total outlays of the Library and relates obligations incurred to total outlays.

The Library's budgetary resources were \$1.9 billion and \$1.7 billion for fiscal years 2004 and 2003, of which \$0.7 billion and \$0.6 billion were from appropriated funds and \$1.2 billion and \$1.1 billion were non-appropriated funds.

Total outlays of \$686.8 and \$560.7 million were incurred with the outlays of appropriated funds (\$515.0 and \$477.8 million) combined with outlays of the non-appropriated funds (\$171.8 and \$82.8 million) in fiscal years 2004 and 2003. The increase in outlays is primarily a result of the aforementioned increase of distributions of royalty fees during fiscal year 2004.

### **Consolidated Statements of Financing**

The Consolidated Statements of Financing are presented to explain how budgetary resources obligated during the fiscal year (presented on the Combined Statements of Budgetary Resources) relate to the net costs of operations of the Library (presented on the Consolidated Statements of Net Costs). The Library had a difference between its net obligations (\$703.4 and \$602.7 million) and its net costs (\$607.2 and \$579.8 million) of \$96.2 million and \$22.9 million for fiscal years 2004 and 2003,

respectively. This difference is primarily explained by the refunds of non-exchange revenue and copyright licensing royalties (\$157.0 and \$70.1 million) and capitalized costs (\$13.6 and \$24.2 million) being offset by increases of resources of non-budgetary donations (\$19.3 and \$38.7 million) and non-budgetary imputed costs (\$69.5 and \$62.8 million).

## **KEY PERFORMANCE MEASURES**

Since 2000, the Library's collections have increased from 121 million to 130.2 million items -- an increase of 9.2 million or 7.6 percent. Over the same five-year period, the full-time equivalent (FTE) staff paid by appropriated funds has increased from 3,919 to 4,056 -- an increase of 137 FTE's or 3.5 percent. The Library's Internet transactions have grown dramatically from 931 million in fiscal year 2000 to 3.3 billion in fiscal year 2004. Internet-based systems include major World Wide Web services (e.g., THOMAS, LC-Web) and various file transfer options. This rapid growth will almost certainly continue to increase because the Library has put on-line more than nine million items of American history as the core of a National Digital Library and operates an educational Web site for families called "America's Library."

**THE LIBRARY OF CONGRESS**

**COMPARISON OF APPROPRIATIONS, STAFF, AND WORKLOAD STATISTICS**

For the Fiscal years 2000, 2001, 2002, 2004 and 2004

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Change 2000 - 2004	% CHANGE
LIBRARY APPROPRIATIONS - ACTUAL	\$427,457,610	\$550,347,401	\$525,837,000	\$539,469,502	\$559,299,548	\$131,841,938	30.84%
FULL-TIME EQUIVALENT (FTE) POSITIONS (Appropriated)	3,919	3,891	3,947	4,020	4,056	137	3.50%
SIZE OF LIBRARY COLLECTIONS	120,976,339	124,247,602	126,060,980	127,720,880	130,198,428	9,222,089	7.62%
<b>WORKLOAD STATISTICS:</b>							
Unprocessed Library Arrearages	19,215,629	21,142,980	20,095,008	20,422,598	19,313,015	97,386	0.51%
CRS - Requests & Services Provided Congress	584,384	711,612	811,467	875,197	899,284	314,900	53.89%
Loans of Collections to Congress	29,276	25,713	25,099	29,454	29,067	-209	-0.71%
Copyright Claims Registered	515,612	601,659	521,041	534,122	661,469	145,857	28.29%
Copyright Direct inquires (in person, phone, correspondence)	385,513	339,658	358,604	371,446	381,845	-3,668	-0.95%
Services to the Blind & Physically Handicapped (BPH) - Readership	759,000	742,000	695,907	766,137	766,137	7,137	0.94%
BPH - Books & Magazines; Total Circulated	22,825,000	23,100,000	23,464,309	23,780,639	23,780,639	955,639	4.19%
BPH - New Braille & Audio Books & Magazines Titles	2,729	2,638	2,663	2,764	5,486	2,757	101.03%
Print Materials Cataloged	224,544	273,534	310,235	269,568	294,510	69,966	31.16%
National Coordinated Cataloging Operation (NACO) - LC Contribution	80,066	90,542	88,475	93,584	101,081	21,015	26.25%
National Coordinated Cataloging Operation - Outside Contribution	128,160	143,031	162,363	176,487	156,098	27,938	21.8%
Exhibits, Displays, & Publications (Funded by Appropriations)	32	35	37	23	23	-9	-28.13%
Regular Tours (Participants)	59,536	105,988	112,423	111,755	109,252	49,716	83.51%
Reference Service	912,120	828,533	775,115	715,479	682,264	-229,856	-25.20%
Main Reading Room & Five Other Reading Rooms Hours Per Week	65	65	65	65	65	0	0%
Items Circulated	1,694,582	1,580,162	1,362,724	1,375,807	1,389,161	-305,421	-18.02%
Preservation Treatment - Original Format	263,817	326,623	666,422	1,591,735	2,648,334	2,384,517	903.85%
Mainframe Computer Transactions	85,217,677	63,913,258	109,008,458	111,175,428	103,463,022	18,245,345	21.41%
Integrated Library System Input/Update Transactions	59,319,648	65,663,286	91,834,274	96,495,434	98,312,132	38,992,484	65.73%
Machine Readable Cataloging (MARC) Records	29,633,607	31,103,700	31,638,841	33,758,594	35,758,828	6,125,221	20.67%
Internet Transactions (i.e., LOCIS, MARVEL, World Wide Web, and THOMAS public transactions)	931,256,160	1,283,747,169	2,039,268,542	2,620,884,359	3,360,481,609	2,429,225,449	260.85%

Other noteworthy workloads include the following:

- The Library's arrearage decreased by 5.4 percent during fiscal year 2004 due to progress in the arrearage reduction program.
- The number of Congressional requests and services annually provided by the Congressional Research Service (CRS) increased from 584,384 in 2000 to 899,284 in 2004. This change reflects an ongoing congressional need for significant research and analytical support across an increased number of major policy areas, particularly in their use of electronic products via the CRS Web site.
- Copyright office registrations were 145,857 more in 2004 than in 2000. Registration processed in fiscal year 2003 was impacted by the mail disruption caused by the anthrax incidents on Capitol Hill. The number of copyright direct inquiries (in-person, phone,

and correspondence) was 3,668 fewer in 2004 than in 2000. Decreases in intervening years were principally due to the growing public use of the Web site for information on copyright law, the Copyright Office's services, and Copyright Office forms and publications. The number of e-mail inquiries in FY 2004 was close to the FY 2003 high. Use of the Copyright Office Web site more than doubled since 2000, to 20 million transactions.

- The number of information requests handled by reference staff and items circulated decreased by 25 percent respectively from 912 thousand in 2000 to 682 thousand in 2004, while the number of Internet transactions increased from 931 million to 3.4 billion. This trend reflects greater use of the Library's on-line resources.
- The number of items for preservation treatment increased by 1.1 million from 2003 to 2004 primarily due to processing one

million sheets of non-book material on-site using the manuscript deacidification trader installed in August, 2002.

□ The number of mainframe transactions increased during 2004 because of increased use of the Copyright Office Publication and Interactive Cataloging System, which uses a database currently on the mainframe to satisfy data requests.

## **MAJOR GOALS AND ACCOMPLISHMENTS IN FISCAL YEAR 2004**

The following section presents the significant annual goals and accomplishments for fiscal year 2004 as they relate to the strategic goals cited in the Library's 2004–2008 strategic plan. As Library organizations have the flexibility to establish annual goals that meet one or more of the goals in the strategic plan, the annual goal and accomplishments that follow have been cited with the strategic goal that is most applicable.

**Strategic Goal 1: Build and preserve a comprehensive collection of knowledge and creativity in all formats and languages for use by the Congress and other customers.**

**Annual Goal:** National Library Operations. Maintain a basic level of ongoing operations, while undertaking phased business process improvements.

**Annual Accomplishments:** Core services during fiscal year 2004 were marked by significant accomplishments in all basic areas:

- Acquired over one million items through the Acquisitions Directorate;
- Maintained a large and constant inflow of materials: books (139,951), serials (234,906), and other formats (9,303) for a total of 384,160 acquisitions.
- Awarded the first Kluge Prize;
- Helped save 40,000 documents and books in Iraq;

- Processed 100 percent of current receipts by the bibliographic access divisions;
- Copy cataloging increased by 19 percent over the previous year;
- Exceeded the book deacidification goal by 20 percent; and
- Expanded public services through increased web access and increased reading room activities.

**Strategic Goal 2: Provide maximum access and facilitate effective use of the collections by the Congress and other customers.**

**Annual Goal:** Arrearage Reduction. Meet the revised total arrearage goals approved by Congress.

**Annual Accomplishments:** LS furthered its work toward reducing the arrearage by clearing far more than the target of 8,000 rare book items (13,041 cleared) and 60,000 sound recording items (87,228 cleared).

**Annual Goal:** Off-site Facilities. Continue work on building the National Audio-Visual Conservation Center (NAVCC) and the storage modules at Ft. Meade and moving collections to Ft. Meade.

**Annual Accomplishments:** Major accomplishments were made in our two primary off-site storage efforts: NAVCC, which work is proceeding on schedule and at Ft. Meade, where construction of Module 2 continues on schedule toward a completion date of March 2005. More specifically:

At NAVCC, the architects redesigned the audio and media prep rooms, provided more and better distributed power, expanded the space for the data center with more power and air conditioning, provided expansion space, and did minor reconfiguration of each floor. Design issues remain with the need for bi-zone humidity control within the Conservation Building, adherence to the ANSI 100 standard for clean-rooms, and more power in rooms with specialized equipment.

For the Ft. Meade facility, a binding-preparation contract started the process of readying 2,434 Chinese and Japanese serial volumes for relocation to Ft Meade with a second preparation contract awarded and

scheduled for implementation in early fiscal year 2005. Facility construction began in calendar 2004 and continued to move ahead toward completion projected for March 2005.

**Annual Goal:** Inventory Management. Improve controls over library collections.

**Annual Accomplishments:** The Baseline Inventory Program made major progress in fiscal year 2004 with almost 800,000 online item records created or updated. Other inventory control efforts through the National Library are currently underway or planned.

**Strategic Goal 3: Lead, promote, and support the growth and influence of the national and international library and information communities.**

**Annual Goal:** Cataloging Distribution Service (CDS) Operations. Maintain a basic level of ongoing operations, while undertaking phased business process improvements.

**Annual Accomplishments:** Maintained high-quality biblio-graphic distribution services for the global library and information communities, while sustaining cost-recovery operations and undertaking phased business process improvements. CDS launched the Web version of Cataloger's Desktop to the global library and information communities. Cataloger's Desktop is a standard source of cataloging and metadata standards and best practices worldwide and with its introduction on the Web, virtually all of the documentation developed and used by the Library of Congress in organizing its collections for effective access is available online in a convenient and cost-effective format.

**Strategic Goal 4: Expand, manage, and communicate Library of Congress digital strategies and roles.**

**Annual Goal:** Digital Strategy. In concert with the Office of Strategic Initiatives, enable the National Library to carry out its mission in the digital age.

**Annual Accomplishments:** Accomplishments in the digital arena were broad in scope and quantity. In addition to 4.3 terabytes of information collected from the Web, LS added a variety of valuable electronic publications to the collections including key Chinese databases, and the AARP's Voices of Civil Rights.

Work in digitizing Library collections continued with the addition of approximately 740,000 digital items to the National Digital Library. Specific examples of digital accessions to the collections included:

In addition to the information from the web, resources collected from January 2001 through September 2004 total 15 terabytes including information on the war in Iraq, the 2004 elections, the 108th U.S. Congress, and current public policy topics.

Continued purchase of, which is in addition to access of, electronic content continued in FY 2004. Significant additions to the Library's e-collections were: *Eighteenth Century Collections Online*, several H.W. Wilson retrospective files: *Readers Guide Abstracts*; *Art Index*; *Index to Legal Periodicals*; *Humanities and Social Science Abstracts*, and *Making of Modern Law*; key Chinese electronic databases including academic journals and newspapers; Luso-Hispanic electronic journals, available to on-campus users via the Library's Electronic Research Tools website; scientific e-journals; three new databases from East View Information Services were acquired: *Universal Database of Ukrainian Publications*, *Universal Database of Russian National Bibliography and Universal Database of Statistical Publications*; and a collection of firsthand personal accounts of participants in the Civil Rights movement.

Another significant electronic resource was acquired by gift; almost sixty years (1946-2003) of the newspaper, *People's Daily*, in electronic format was donated to the Library by the eBookMatrix Publishing Corp.

Library Services sponsored the addition of approximately 740,000 digital items to the National Digital Library, including 37 new collections and updates.

The *Meeting of Frontiers* project team completed a major expansion of the *Meeting of Frontiers* website including 24 collections from 14 different libraries and archives in Irkutsk, Kemerovo, Krasnoyarsk, Novosibirsk, Tomsk, and other Siberian cities, as well as additional collections from the National Library of Russia in Saint Petersburg, the Russian State Library in Moscow, and the Library of Congress.

Four thousand social sciences monographs were added to the catalog in FY 2004.

Cataloging was created for digital collections harvested by the Library from the 107th Congress, the 9/11 Archives, Election 2000, and Election 2002.

Finally, a hardware roundtable in March and software roundtable in July brought together Library staff with expert consultants to discuss systems architecture for the National Audio-Visual Conservation Center (NAVCC) and resulted in a design to move the project forward. The Systems Requirements document, submitted for the Library's approval, will guide software development and systems integration.

**Annual Goal:** Expand, Manage, and Communicate LC Digital Strategies and Roles. This goal is intended to increase digital policy, practice leadership and coordination by the Library of Congress, and increase Congressional and stakeholder understanding and recognition of the Library of Congress' digital priorities, and activities as defined in the Digital Strategic Plan.

**Annual Accomplishments:** OSI launched the Digital Preservation website and the OSI intranet, awarded \$15 million to eight partner institutions for the National Digital Information Infrastructure and Preservation Program (NDIIPP), and instituted a targeted communications strategy. Detailed examples of these accomplishments include:

The Digital Preservation website's presentation of information about current high priority digital projects and a variety of supporting documentation, including an extensive section covering the long-term sustainability of various digital formats.

Agreements with eight institutions to collect and preserve a diverse range of important digital material useful to current and future generations of researchers, scholars and lifelong learners.

Through publications such as the Library's Information Bulletin, listserves reaching the library and information community and the news media (*e.g.*, The New York Times and The Washington Post), OSI targeted the U.S. Congress, other stakeholders, and the general public with a communications strategy keeping them up-to-date on the latest accomplishments of the Library's digital initiatives.

## **Strategic Goal 5: Manage and sustain digital content.**

**Annual Goal:** Manage and Sustain Digital Content. Access over time to a rich body of digital content through the establishment of a national network of committed partners, collaborating in a digital preservation architecture with defined roles and responsibilities. The active institution-wide management of digital content by the Library, throughout each stage of the content life cycle, that recognizes the institution-wide interdependencies among various life cycle stages to include planning, creating, selecting, describing, sustaining, and making available digital content.

**Annual Accomplishments:** OSI added significant content to various online collections and entered into several joint digital preservation projects with internal and external partners. Specific examples include:

Twelve new thematic presentations of materials, ranging from Chinese manuscripts to early baseball guides, were added to the American Memory collections and other areas of the Library's Web site. Seventeen existing collections were expanded with new content. At the end of the fiscal year, there were 136 digital collections online comprising 9.26 million digital files.

The Library of Congress entered into a joint digital preservation project with elements of Old Dominion University, Johns Hopkins University, Stanford University, and Harvard University Library to explore strategies for the ingest and preservation of digital archives.

Working with the Congressional Research Service (CRS), OSI initiated an project to identify public policy web resources cited in the information products CRS prepares for Congress. This fiscal year the project collected an archive of over 1,200 web documents and made them available *via* an internal web interface. Additionally, over 4.3 terabytes of web content pertaining to the Election 2004, the War in Iraq, and public policy topics was selected by Library Services and collected by the OSI web capture team.

Working with the National Science Foundation (NSF), NDIIPP established the first research grants program specifically for digital preservation. NSF will administer the program that will fund cutting-edge

research to support long-term management of digital information. The research program announcement coincided with the signing of a memorandum of understanding between the Library of Congress and NSF to collaborate over the next decade in a broad set of research activities related to digital libraries and digital archives.

**Strategic Goal 6: Provide high-quality and timely legal research, analysis, and legal reference services to the Congress, the executive branch agencies, courts, the legal community, and other customers.**

**Annual Goal:** Legal Research, Analysis, and Reference Services. To improve legal research, analysis, and reference service to Congress and other clients.

**Annual Accomplishments:** Exceeded the goal by meeting deadlines 100% of the time when responding to nearly 9,000 Congressional and other customer requests for reports, studies, opinions, legal briefs and legal research reference inquiries. The level of demand for legal studies, opinions and legal briefs from non-congressional sources increased by more than fifty percent during fiscal year 2004. Conducted numerous seminars, demonstrations and discussions, providing U.S. and foreign legal research training to over 300 Congressional staff members.

**Strategic Goal 7: Acquire, secure, maintain, preserve, and make accessible a comprehensive legal collection, in both analog and digital formats, for use by the Congress, executive branch agencies, courts, the legal community, and other customers.**

**Annual Goal:** Law Library Collections Development, Maintenance, Preservation & Security. Ensure the Law Library collections are developed, maintained and preserved to maximize its customers' ability to use the materials for research and analysis. Ensure collection security provides an acceptable level of protection against theft, mutilation or physical destruction.

**Annual Accomplishments:** Collection specialists worked with legal specialists to assure acquisition of primary legal materials and to address critical regions and languages in response to Congressional interests. Invested scarce base funding to begin the reclassification of one third of the Law collection to the Class K schedule to make it accessible to legal researchers worldwide. Issued contracts to process,

preserve and shelve collection, avoiding new arranges. Using contract resources, processed all new receipts within five days of receipt.

**Strategic Goal 8: Expand and enhance the Global Legal Information Network (GLIN).**

**Annual Goal:** Global Legal Information Network (GLIN). As the basis for the Law Library's digital future, expand and enhance GLIN by increasing membership and by expanding the system and its capabilities.

**Annual Accomplishments:** Expanded the GLIN network through the recruitment of six member states. Greatly expanded the number of full text laws on the GLIN data base and their corresponding English language summaries. Added all U.S. public laws from current Congress to GLIN database and 20 selected retrospective U.S. public laws related to treaties and agreements. Promoted GLIN as an international model for electronic legal information systems and cooperative networking through demonstrations at national and international meetings. Produced a prototype of the upgraded GLIN application that will enable the inclusion of new categories of legal materials.

**Strategic Goal 9: Carry out the statutory mission of the Copyright Office to administer copyright and related laws embodied in Title 17 to provide benefit to the nation.**

**Annual Goal:** Registration. Promote efficiency and timeliness in registration processing.

**Annual Accomplishments:** Delivered all registration services in shorter time, except for cataloging, which was anticipated and is being addressed. Achieved and exceeded 90-day target for claims processing by reaching an average of 80 days, a 30 percent improvement during fiscal year 2004 and a 60 percent improvement since 2001. Targeted level of less than six weeks for cataloging was not achievable due to anticipated movement of previously delayed materials into the cataloging process. Cataloging Division expects to reach the target processing time by mid-2005.

**Annual Goal:** Recordation. Promote efficiency and timeliness in recordation processing.

**Annual Accomplishments:** Cut average recordation

processing time in half, reaching 33 days at the end of the year. The improvement since 2001 has been 85 percent.

**Annual Goal:** Statutory Licenses and Obligations and the Copyright Arbitration Royalty Panel System. Administer provisions of the statutory licenses for the mutual benefit of licensees and copyright owners.

**Annual Accomplishments:** Moved steadily toward e-filing of licensing forms; collected over \$200 million in royalties; disbursed over \$154 million. Accepted electronic submission of DART royalty claims (68 FR 74481) and cable and satellite claims (69 FR 30577).

**Annual Goal:** Business Process Reengineering (BPR) Project. Improve Copyright Office public services in its registration, recordation, mandatory deposit, and licensing processes by implementing BPR incrementally into 2006.

**Annual Accomplishments:** Completed planned steps toward 2006 reengineering implementation on all fronts. As examples:

Communicated with staff through all-hands meeting, *ReNews* reengineering newsletter, email news *ReNews Lite*, hallway chats, IT briefings.

Completed and submitted interior architectural construction documents in April 2004 and got the second phase of construction documents to a 95 percent completion level.

Began the effort to obtain offsite space for staff during FY 2006 construction phase.

**Annual Goal:** Information Technology (IT) Planning and Development. Provide Copyright Office IT infrastructure necessary to implement reengineering; strengthen and maintain existing systems to support workflow requirements.

**Annual Accomplishments:** Completed all planned steps toward: the targeted 2006 implementation of the new IT infrastructure; the COPICS to Voyager conversion (handling data transfer to and from Voyager); and the Copyright Records Project to assess the feasibility of digitizing millions of Copyright Office pre-1978 paper records and integrating them with existing electronic records.

**Strategic Goal 10: Formulate and provide expert advice to the Congress, executive branch agencies, courts, and international entities in the furtherance of maintaining a strong and effective national and international copyright system.**

**Annual Goal:** Expert Advice to the Congress. Provide thorough, timely technical and legal advice on copyright issues, meeting congressional requests and timetables.

**Annual Accomplishments:** Provided advice on a large number of legislative items including digital issues involving internet streaming of radio broadcasts, technologies that block out adult content on DVDs, and services that share software to induce infringement on peer-to-peer networks.

**Annual Goal:** Expert Advice to the Executive Branch. Provide thorough and timely expert advice on international and domestic issues to executive branch agencies.

**Annual Accomplishments:** Advised and negotiated copyright-related provisions of trade agreements and worked through international organizations to protect U.S. copyrighted works and strengthen non-U.S. copyright laws.

**Annual Goal:** Litigation. Provide timely and authoritative advice and assistance to executive branch agencies and the courts in legal cases involving copyright issues.

**Annual Accomplishments:** Assisted government agencies and courts in important cases defending copyright legal principles and the constitutionality of specific laws and provisions. For example, U.S. Court of Appeals, Third Circuit, upheld the Copyright Office's determination that Internet streaming of radio stations is not exempt from licenses.

**Strategic Goal 11: Be an effective voice for the principles of copyright, which benefit the public, by providing information and informing the public debate on copyright issues.**

**Annual Goal:** Outreach. Conduct public outreach regarding Copyright Office services and the provisions of the copyright law as well as informing the public debate on copyright issues in various fora and media.

**Annual Accomplishments:** Reached new audiences through the Copyright Office website, speeches, and symposia. As examples:

Reached a new audience with Spanish language website receiving 130,000 hits during the year.

The Copyright Office's website received praise from the Department of Health and Human Services as a government website that meets user expectations.

**Strategic Goal 12: Carry out the statutory mission of the Congressional Research Service to assist the Congress as it undertakes its legislative responsibilities by providing multi disciplinary, nonpartisan, confidential, timely, and objective analysis of public policy problems and their possible solutions.**

**Annual Goal:** Provide non-partisan legislative analysis and information support that the Congress needs as it addresses public policy issues. Provide optimal policy research and analysis products for the Congress.

**Annual Accomplishments:** CRS employed specially tailored, agency-wide research frameworks in supporting demanding public policy areas such as the wars in Afghanistan and Iraq; global terrorism; intelligence reform; continuity of Congress in the event of a national emergency; and the Social Security, Medicare, and Medicaid programs. CRS experts responded with immediate support on matters that suddenly were on the agenda, including a comprehensive interdisciplinary response to the 9/11 Commission Report that involved 70 written products; legal analysis related to the Abu Ghraib prison scandal; and an assessment of implementation issues of the new Medicare prescription drug benefits. Throughout the fiscal year, CRS provided the Congress with a broad range of analytic and information support in a number of other policy areas, including homeland security and the protection of physical assets critical to the U.S. infrastructure; immigration and the eligibility of aliens for public benefits; bio-terrorism including in-depth work on threats posed by various types of biological agents; economic issues including the pace of post-recession job creation and growing federal budget deficit; omnibus energy legislation; and various facets of U.S. interaction with the People's Republic of China. From the start of the 2nd session of the 108th Congress CRS supported more than 165 major policy problems

and maintained more than 1,000 products key to the legislative agenda – an 11 percent increase relative to the 900 products maintained the year before. As a result of these efforts, the U.S. Congress has the information it needs to carry out its legislative responsibilities.

**Annual Goal:** Ensure the intellectual capacity of CRS to meet continuously the changing needs of Congress and fulfill the CRS mission. Provide the full expertise capacity (internal human resources and complementary contracts) to meet the changing needs of the Congress.

**Annual Accomplishments:** CRS staff capacity increased to 713 in fiscal year 2004 – an increase of 21 FTEs, or 3.0 percent over fiscal year 2003. In addition, CRS augmented support activities through outsourcing, reaching a full fiscal year 2004 capacity of 757. CRS extended its research capacity through partnerships with public policy schools at four leading universities, resulting in five completed and eight new study projects and the provision of unique developmental research opportunities for students. Additional breadth and diversity were achieved through internship and recruitment efforts with the Hispanic Association of Colleges and Universities, Atlanta University Consortium Institutions; with organizations in the African American community, such as the United Negro College Fund; and a partnership with the Asian Pacific American Institute for Congressional Studies. CRS continued its efforts on succession planning to ensure continuity of service to the Congress as seasoned employees retire, focusing at the highest level on improved integration into the workforce of new hires.

**Annual Goal:** Develop and sustain an effective internal infrastructure to support CRS in effectively fulfilling its mission. Achieve CRS program mission and goals with a seamless and transparent infrastructure support organization.

**Annual Accomplishments:** CRS maintained a strong internal infrastructure that provided a robust and comprehensive range of strategic planning, financial management, human resource, legal, and information services. Some of the more externally visible fiscal year 2004 infrastructure service results include enhancements to the Legislative Information System (LIS); significant growth in the availability, security, and use by Congress of web services; progress on implementation of an Alternative Computing Facility (ACF); and continued development of a corporate database to integrate and better support requirements of

the research and product management processes. Finally, CRS reached agreement on a new, four-year master bargaining unit contract covering 80 percent of the CRS workforce.

**Strategic Goal 13: Ensure that a high-quality, responsive, and free national reading program is available to the nation's blind and physically handicapped people.**

**Annual Goal:** Digital Strategy: research, design and produce audio digital and web braille magazines, books, and talking book players for program patrons.

**Annual Accomplishments:** Contracted to produce 1,989 digital audio book masters and 1,925,352 copies; 43 digital audio magazine masters and 3,509,105 copies; in web braille produced 6,919 books, 33 magazine titles and 608 music scores. Contracted with GSA for the procurement to design the Digital Talking Book player. Updated ANSI NISO Z39.86 standard.

**Annual Goal:** Program Operations and Services: efficiently and effectively maintain program operations while providing superior services to patrons.

**Annual Accomplishments:** Established a committee to develop a contract structured to assess and evaluate the effectiveness of the NLS program. Contracted to produce and distribute approximately 42,000 analog audio machines. Selected, processed and distributed 543 braille book titles, 33 braille magazine titles, 1,989 analog audio book titles and 43 analog audio magazine titles.

**Strategic Goal 14: Enhance the management and utilization of the Library's Revolving and Reimbursable funds.**

**Annual Goal:** For the Revolving and Reimbursable Funds within the National Library, maintain a basic level of ongoing operations, while undertaking phased business process improvements. Specifically: (1) resolve legal issue of assigning loss resulting from Faxon/Rowecom bankruptcy, consider options for mitigating future risk, and implement selected options before FY 2005; (2) meet the Fiscal Year 2004 Photoduplication Service revenue projection of \$3.8 million and maintain operational expenses below \$3.8 million; and (3) implement the 2004-2005 Publishing Plan.

**Annual Accomplishments:** Revolving funds faced significant challenges such as the resolution of legal issues surrounding the Faxon/Rowecom bankruptcy and the Publishing Office's completion of almost 40 publishing projects. Specifically:

In October 2004, the US Bankruptcy Court accepted a settlement agreement between the Library and the Debtor (Faxon/Rowecom) for a total claim of \$434,206.72 (approximately 80% of the Library's initial claim.) FEDLINK management is now determining appropriate reimbursement for customer losses, to be paid out from FEDLINK reserves. FEDLINK contracts have incorporated a more stringent financial review of prospective and active vendors, and FEDLINK fiscal managers and COTRs have implemented customer checks for early identification of future financial problems of FEDLINK vendors.

The 2003-2004 Publishing Plan achieved the completion of more titles than it originally projected, including *Bound for Glory*, *From Haven to Home*, *A Heavenly Craft*, *First Daughters*, and *Old Glory*. In addition, the Publishing Office completed 16 calendar projects based on the collections of the Library of Congress, resulting in the completion of work on almost 40 publishing projects in 2003-2004.

The Photoduplication Service did not meet its revenue projection of \$3.8 million. Although operating expenses were \$0.4 million lower than projected, the year ended with a loss of \$299,000.

**Strategic Goal 15: Manage Human Capital so the Library is able to attract and maintain an outstanding workforce with the skills, resources, and dedication to deliver a range of high-quality, cutting-edge services, in all the Library's program and support areas.**

**Annual Goal:** Obtain, develop, and sustain specialized expertise and resources needed to achieve Library of Congress Digital Goals and Priorities. Sustain service units mission-critical digital programs and sustain life cycle management of digital content.

**Annual Accomplishments:** OSI supported the execution of its digital goals through both contracts and by entering into agreements with Los Alamos National Laboratory. Specifically:

The contracts provide a variety of expert IT support

services in managing, coordinating, facilitating, and executing the priority projects and systems identified as critical digital initiatives in the Library's Digital Strategic Plan.

The Library's agreement with the Los Alamos National Laboratory will develop three software prototypes to run archiving repositories for different types of digital content.

**Annual Goal:** Provide strategic innovative solutions to current and emerging human capital challenges. Align HR plans, programs, and systems to accomplish LC mission needs. Identify and implement electronic solutions to HR needs to improve operations and return time to managers and staff. Conduct workforce transition plans to identify current and future required skill sets. Assist LC offices in succession and workforce planning initiatives.

**Annual Accomplishments:** HRS helped the Library recruit and retain senior level leadership, used technology to streamline time and attendance and other essential human resources functions, collaborated with all service units in identifying future hiring system needs, helped craft human capital legislation, informed staff about important human resources matters, and aided agency workforce and succession planning efforts.

**Annual Goal:** Workforce Development. Maintain a Copyright Office workforce that meets the Office's mission requirements by providing training and development opportunities to staff.

**Annual Accomplishments:** Proceeded on schedule with training associated with the Reengineering Program and began hiring of a Training Officer to lead the training component.

**Strategic Plan Goal 16: Create an environment that supports delivery of superior service to the Congress and the American people through effective communication and management of business and supporting processes and financial resources, and that provides a safe and healthy workplace. This goal and its objectives represent cross-cutting activities that "enable" the program organizations of the Library to carry out their missions. While performance of these objectives should be transparent to the Congress and the public, the objectives are vital to serving the Library's customers.**

**Annual Goal:** Coordinate and manage Library of Congress events. Review scale of contribution for use of Library event space and revise as needed by the end of the fiscal year.

**Annual Accomplishments:** The Office of Special Events and Public Programs coordinated and managed 586 events during fiscal year 2004 including Library-sponsored, Congressional, corporate, non-profit, and various observances. These events supported the mission of almost every division throughout the Library and introduced thousands of visitors to the Library's collections and services. The revolving fund covered all expenses that were allocated to the revolving fund and netted a reserve of six months. Other expenses were covered by appropriated funds in proportion to the Congressional cost absorbed events. In 2002, the Executive Committee approved the current fee structure which was based on a five-year projection and the decision was made at that time to review the fee structure once every five years, not annually.

**Annual Goal:** Lead the Library-wide effort to obtain an unqualified (clean) audit opinion on the fiscal year 2003 Library Financial Statements. Close out fiscal year financial transactions and coordinate the preparation and review of Library of Congress financial statements for fiscal year 2003.

**Annual Accomplishments:** The Library received a clean audit opinion reflecting the fact that the Library has sound financial policies. Important supporting accomplishments included:

**Annual Goal:** Enhance OCFO's administrative ability to provide quality services to customers.

**Annual Accomplishments:** OCFO provided its services to the Library's service units as well as to cross-serviced agencies, Congress, vendors in a timely and efficient manner. During fiscal year 2004, OCFO coordinated the implementation of the Library's next generation central financial management system, which will further enhance customer service in future years.

**Strategic Goal 17: Manage and sustain mission-critical IT programs.**

**Annual Goal:** Manage and Sustain Mission-critical Digital Programs. Furtherance of core service unit operations and strategic objectives through the use of

IT expertise, services, and resources. LC service units, with the support and assistance of the Library's Information Technology Services, will plan, design, and implement new digital projects and programs that support service-unit-specific-missions, as well as sustain operations through the application of new or upgraded digital technologies.

**Annual Accomplishments:** Provided Information Technology (IT) support services to Library units and managed the Library's technical infrastructure including both testing and deployment of technical components.

**Annual Goal:** Provide for business continuity in the event of a catastrophic failure in the Library computer center.

**Annual Accomplishments:** ITS has completed 90 percent of the development effort for both the business continuity plan and the Alternate Computing Facility. When completed in the first quarter of fiscal year 2005, these two accomplishments will ensure continued operations in the event of a disaster.

**Strategic Goal 18: Provide effective security and emergency planning for the Library's staff and visitors, collections, facilities, and other assets.**

**Annual Goal:** Collections Security. Secure the Library's heritage assets during all phases of collections' life cycle using bibliographic, inventory, physical, and preservation controls.

**Annual Accomplishments:** In the LS effort to secure the collections, platinum collections received primary focus in fiscal year 2004, with identification of an off-site storage location and increased protective storage on-site. More specifically, an off-site storage location, with the appropriate level of security, for the Library's platinum items was identified and transportation plans developed in the event the items must be moved to that location.

For on-site storage, the platinum treasures were further protected in protective boxes within newly purchased cabinets providing increased protection including locking doors to prevent the entry of water, contaminants, debris, and insects.

**Annual Goal:** Law Library security. Enhance the Law Library's security procedures and business continuity contingency plan.

**Annual Accomplishments:** Drafted an 80-page Emergency Procedures and Continuity of Operations Manual. Developed and implemented plans and procedures for sheltering-in-place.

**Annual Goal:** Oversee the Library's mail services, freight accounting, and dock operations, which are provided by a contractor under a master contract administered by the House of Representatives for mail receipt, testing, and delivery to the Library (and the House of Representatives) within terms required by the contract.

**Annual Accomplishments:** Enhanced mail screening protocols and maintained the security and integrity of the mail; and provided oversight of the Library's mail, freight, and dock operations through close oversight of the mail services contractor, Pitney-Bowes, such that all service performance standards defined in the House of Representatives contract were met or exceeded.

**Annual Goal:** Continue to improve the physical security of the Library through the sustained implementation of the Library's Security Enhancement Implementation Plan.

**Annual Accomplishments:** Major improvements to the Library's physical security program were accomplished through the installation of expanded and upgraded security systems and devices. Specific, important accomplishments included:

The consolidation of the Police Communication Centers (PCC) was completed, integrating the Library's upgraded intrusion detection and security monitoring systems.

Three police shelters were installed with six corresponding pop-up-barriers to control vehicular traffic around the Library's Jefferson and Madison buildings. Progress was also made on the CCTV system which is now approximately 70 percent complete.

Completed the physical upgrades to all but one designated building entrances to accommodate enhanced security screening. The one entrance not completed, the Jefferson Building's Southeast researchers entrance will be completed by the end of the 1st quarter, fiscal year 2005.

A computerized radio system was procured and implemented compatible with the US Capitol Police radio system to enhance communications between the Library and US Capitol police. Design specifications were completed for a new public address system within the Library's Capitol Hill buildings to eliminate dead spots in the current systems coverage.

**Annual Goal:** Continued implementation of the Library's collections security controls.

**Annual Accomplishments:** Collections Security initiatives were improved through a continued collaborative effort between the Office of Security and Emergency Preparedness and the Collections Security Oversight Committee (CSOC). Details of the accomplishments include:

Working Documents outlining milestones were distributed.

Protective Services and the CSOC completed a two-year cycle of Site Assistance Visits (SAVs) to ninety divisions to monitor and enhance the effectiveness of staff security practices.

**Annual Goal:** Establish an Emergency Management Plan and staff an Emergency Management Section within OSEP in concert with the fiscal year 2004 approved budget to ensure Library staff responds efficiently and effectively to internal and external emergency events and situations.

**Annual Accomplishments:** Position descriptions, job analysis, position announcements, and interviews were conducted to hire four emergency preparedness staff members. Additionally, much was accomplished towards improving evacuation drills and exercises. Volunteers from all of the Library's Service Units were identified, trained and equipped, and several evacuation drills were conducted.

## **MANAGEMENT CONTROL PROGRAM, SYSTEMS, CONTROLS AND LEGAL COMPLIANCE**

The Library has a management control program (MCP) that requires annual risk (vulnerability) assessments and periodic detailed reviews of internal controls based on the results of the vulnerability assessments. The MCP is designed to ensure that: (1) obligations and

costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use or misappropriation; (3) revenues and expenditures are properly accounted; and (4) program activities are carried out in the most efficient, effective, and economical manner possible.

During the fiscal year 2004, Library staff performed vulnerability assessments on all of the 182 identified financial and non-financial modules and assigned, based on a scoring system, a high, medium or low risk to the modules. Then, based on risk and scheduling, Library staff performed 68 detailed control reviews in fiscal year 2004 to examine the controls in place in the selected modules. Plans to correct any deficiencies in controls were derived based on the examination results and will be tracked at an agency level by program officials until the deficiencies are resolved.

The implementation and regular testing of controls allows for Library management to assert that these controls provide reasonable assurance that the forgoing objectives are met. This testing is performed on the central financial and reporting systems, along with the subsidiary and program systems and the external financial interfaces used by the Library. In addition, the Library is implementing a new central financial management system during fiscal year 2004 (to be used starting in fiscal 2005), which will further enhance system controls in future years by decreasing the amount of subsidiary and program systems and manual process. With only items associated with the January, 2001 Office of Compliance report on Fire Safety Inspections being the exception, the Library also asserts its compliance with all applicable laws and regulations.

## **STEWARDSHIP REPORTING**

The standard for stewardship reporting on selected assets classified as "heritage assets" developed by the Federal Accounting Standards Advisory Board (FASAB) is mandatory for fiscal years 2004 and 2003. The standard applies to entities (1) that control stewardship resources and (2) whose financial statements purport to be in accordance with federal accounting principles and standards developed by FASAB and accepted by the principals. All stewardship information is deemed "required supplemental stewardship information."

In fiscal year 1995, the Library, in consensus with its independent auditors at that time, determined its collections were within the stewardship resource classification and prepared its first stewardship report. Beginning in fiscal year 1995, the Library initiated developing a data collection and a trial reporting methodology that lead to fulfilling the objectives of the stewardship reporting standard -- to assist in judging the long-term effectiveness of expenditures for "heritage assets," the results of inputs and outcomes, and the financial impact of sustaining current services.

Consistent with the guidelines provided by FASAB, the Library has prepared its tenth stewardship report on its collections that provides the suggested relevant information concerning the asset description, acquisition, preservation, security and use, estimated number of items, and expenditures. The Stewardship Report is included as Section 3 of this report.

### **LIMITATIONS OF THE FINANCIAL STATEMENTS**

The Library's financial statements are the culmination of a systematic accounting process. The statements have been prepared to report the financial position and results of operations of the Library of Congress, pursuant to the hierarchy of accounting principles and standards set forth in Note 1 to the Financial Statements. While the statements have been prepared from the books and records of the Library, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

# THE LIBRARY OF CONGRESS

## FINANCIAL STATEMENTS AND NOTES

# THE LIBRARY OF CONGRESS

## Consolidated Balance Sheets

As of September 30, 2004 and 2003  
(Dollars in Thousands)

	2004	2003
<b>ASSETS</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 350,490	\$ 344,283
Investments (Note 4)	905,078	840,921
Accounts Receivable, Net (Note 5.A)	5,046	7,999
Other Assets	5,535	1,654
Total Intragovernmental	1,266,149	1,194,857
Cash and Other Monetary Assets (Note 1.G)	442	771
Pledges Receivable - Donations (Note 5.B)	6,948	10,192
Investments (Note 4)	68,814	61,298
Inventory and Operating Supplies and Materials (Note 1.K)	1,541	1,955
Property and Equipment, Net (Note 6)	36,118	32,388
Other Assets	7,097	7,302
Library Collections (Note 1.M)		
<b>Total Assets</b>	\$ 1,387,109	\$ 1,308,763
<b>LIABILITIES</b>		
Intragovernmental:		
Accounts Payable and Accrued Funded Payroll, Benefits	\$ 6,683	\$ 6,976
Advances from Others	24,493	26,119
Accrued Unfunded Workers' Compensation (Note 9)	1,616	1,671
Total Intragovernmental	32,792	34,766
Accounts Payable and Accrued Funded Payroll, Benefits	35,851	38,636
Custodial Liability (Note 3)	855,700	793,546
Deposit Account Liability	6,093	5,333
Accrued Unfunded Annual and Compensatory Leave	21,449	22,071
Actuarial Unfunded Workers' Compensation (Note 9)	8,470	8,793
Other Liabilities (Note 11)	5,425	2,972
<b>Total Liabilities</b>	965,780	906,117
Commitments and Contingencies (Note 10)		
<b>NET POSITION</b>		
Balances:		
Unexpended Appropriations	259,574	251,784
Cumulative Results of Operations	161,755	150,862
<b>Total Net Position</b>	421,329	402,646
<b>Total Liabilities and Net Position</b>	\$ 1,387,109	\$ 1,308,763

The accompanying notes are an integral part of these financial statements.

# THE LIBRARY OF CONGRESS

## Consolidated Statements of Net Costs

For the Fiscal Years Ended September 30, 2004 and 2003

(Dollars in Thousands)

	2004	2003
<b>Net Costs by Program Area:</b>		
<b>National Library:</b>		
Program Costs	\$ 373,776	\$ 357,715
Less Earned Revenue	4,366	4,631
Net Program Costs	<u>369,410</u>	<u>353,084</u>
<b>Law Library:</b>		
Program Costs	19,786	18,196
Less Earned Revenue	6	8
Net Program Costs	<u>19,780</u>	<u>18,188</u>
<b>Copyright Office:</b>		
Program Costs	59,103	60,668
Less Earned Revenue	26,917	28,527
Net Program Costs	<u>32,186</u>	<u>32,141</u>
<b>Congressional Research Service:</b>		
Program Costs	119,253	113,579
Less Earned Revenue	4	0
Net Program Costs	<u>119,249</u>	<u>113,579</u>
<b>National Library Service for the Blind and Physically Handicapped:</b>		
Program Costs	50,802	50,788
Less Earned Revenue	0	0
Net Program Costs	<u>50,802</u>	<u>50,788</u>
<b>Revolving and Reimbursable Funds:</b>		
Program Costs	88,890	76,349
Less Earned Revenue	73,117	64,337
Net Program Costs	<u>15,773</u>	<u>12,012</u>
<b>Net Costs of Operations</b>	<u>\$ 607,200</u>	<u>\$ 579,792</u>

The accompanying notes are an integral part of these financial statements.

# THE LIBRARY OF CONGRESS

## Consolidated Statements of Changes in Net Position

For the Fiscal Years Ended September 30, 2004 and 2003

(Dollars in Thousands)

	2004		2003	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>Net Position, Beginning</b>	\$ 150,862	251,784	\$ 162,809	230,690
<b>Change in Accounting Principle (Note 1.R)</b>			(39,910)	
<b>Budgetary Financing Sources</b>				
Appropriations Received		526,105		506,616
Appropriations transferred – in/out		(249)		(497)
Other adjustments (Recession, Cancelled Auth., etc.)		(6,781)		(6,765)
Appropriations Used	511,285	(511,285)	478,260	(478,260)
Non-Exchange Revenue	1,285		1,416	
Donations-Cash or securities	8,400		14,967	
Transfer in/out without reimbursement	702		149	
Other financing sources with budgetary impact	1,008		872	
<b>Other Financing Sources</b>				
Donations-Property and Services	19,257		38,667	
Transfer in/out without reimbursement	0		(16)	
Imputed Financing from costs absorbed by others	69,500		62,764	
Other	6,656		10,676	
<b>Total Financing Sources</b>	618,093	7,790	607,755	21,094
<b>Net Cost of Operations</b>	(607,200)		(579,792)	
<b>Net Position, Ending</b>	\$ 161,755	259,574	\$ 150,862	251,784

The accompanying notes are an integral part of these financial statements

# THE LIBRARY OF CONGRESS

## Combined Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 2004 and 2003  
(Dollars in Thousands)

	2004	2003
<b>Budgetary Resources</b>		
Budget authority		
Appropriations received	\$ 762,017	\$ 734,211
Net transfers (+/-)	(249)	(497)
Other	0	20
Unobligated balance:		
Beginning of period	977,504	853,476
Spending authority from offsetting collection		
Earned		
Collected	121,519	109,274
Receivable from Federal sources	(1,695)	1,482
Change in unfilled customer orders		
Advance received	1,500	2,168
Without advance from Federal sources	(2,416)	(521)
Transfers from trust funds	293	382
Subtotal	119,201	112,785
Recoveries of prior year obligations	25,478	7,759
Temporarily not available pursuant to Public Law	371	35
Permanently not available-Cancellation of authority	(3,837)	(3,591)
Permanently not available-Enacted Recissions	(3,104)	(3,441)
	\$ 1,877,381	\$ 1,700,757
<b>Total Budgetary Resources</b>		
<b>Status of Budgetary Resources:</b>		
Obligations incurred, direct & reimbursable	\$ 848,071	\$ 723,253
Unobligated balance-Exempt from Apportionment	1,022,409	972,314
Unobligated balance not available-other	6,901	5,190
	\$ 1,877,381	\$ 1,700,757
<b>Total Status of Budgetary Resources</b>		
<b>Relationship of Obligations to Outlays:</b>		
Obligated balance, net, beginning of period	\$ 191,677	\$ 149,653
Obligated balance transferred, net (+/-)		
Obligated balance, net, end of period:		
Accounts receivable from reimbursement, earned income and other Federal sources	(1,193)	(2,894)
Unfilled customer orders from Federal sources	(3,873)	(6,284)
Undelivered orders, unpaid	171,033	154,374
Delivered Orders, unpaid	42,286	46,481
Total obligated balance, net, end of period	208,253	191,677
Outlays:		
Disbursements	810,130	672,508
Collections	(123,312)	(111,824)
	\$ 686,818	\$ 560,684
<b>Total Outlays</b>		

The accompanying notes are an integral part of these financial statements.

The Library has no nonbudgetary credit program financing accounts; all amounts above are budgetary.

# THE LIBRARY OF CONGRESS

## Consolidated Statements of Financing

For the Fiscal Years Ended September 30, 2004 and 2003

(Dollars in Thousands)

	2004	2003
<b>Resources Used to Finance Activities</b>		
Obligations incurred	\$ 848,071	\$ 723,253
Spending authority from offsetting collections and recoveries	(144,679)	(120,544)
<b>Net Obligations</b>	<u>703,392</u>	<u>602,709</u>
<b>Other Resources</b>		
Donations of property and services	19,257	38,667
Transfers-in (out) without reimbursement	0	(16)
Imputed financing from costs absorbed by others	69,500	62,764
Exchange revenue not in the budget	517	(561)
Nonexchange revenue not in the budget	(21)	7
Trust/Special fund exchange revenue receipts	(3,431)	(5,685)
Other resources, In (Out)	6,656	10,676
<b>Total Resources Used to Finance Activities</b>	<u>795,870</u>	<u>708,561</u>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	(19,670)	(34,867)
Resources that finance the acquisition of assets	(13,576)	(24,248)
Resources that fund expenses recognized in a prior period	(1,001)	(0)
Other resources or adjustments to net obligations that do not affect net cost of operations	(156,957)	(70,099)
<b>Total Resources Used to Finance Items not Part of the Net Cost of Operations</b>	<u>(191,204)</u>	<u>(129,214)</u>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<u>604,666</u>	<u>579,347</u>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
<b>Components requiring or generating resources in future periods:</b>		
Increase in annual leave liability and actuarial liabilities	0	2,535
<b>Total components of net cost of operations that will generate resources in future periods</b>	0	2,535
<b>Total Resources Used to Finance Activities</b>		
<b>Components not Requiring or Generating Resources</b>		
Depreciation and amortization	9,550	8,478
Revaluation of assets and liabilities	(7,206)	(10,659)
Bad debt from public vendor overpayment receivables	(7)	(6)
Disposition of assets	204	0
Other costs not requiring or generating budgetary resources	(7)	97
<b>Total components of net cost of operations that will not require or generate resources</b>	<u>2,534</u>	<u>(2,090)</u>
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<u>2,534</u>	<u>445</u>
<b>Net Cost of Operations</b>	<u>\$ 607,200</u>	<u>\$ 579,792</u>

The accompanying notes are an integral part of these financial statements.

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

**1** *Summary of Significant Accounting Policies*

**A. Reporting Entity**

The Library of Congress (Library), a legislative branch agency of the federal government, was established in 1800 primarily to provide information and policy analyses to the members and committees of the U.S. Congress. Since then, the Library has been assigned other major missions such as administering the U.S. copyright laws, providing cataloging records to the nation's libraries, and coordinating a national program to provide reading material for blind and physically handicapped residents of the U.S. and its territories and U.S. citizens residing abroad. The Library also provides services to other federal agencies and administers various gift and trust funds.

The Library's programs and operations are subject to oversight by the Joint Committee on the Library, which is comprised of members of the U.S. House of Representatives and Senate. The Library relies primarily on appropriated funds to support its programs and operations. Budget requests are subject to review by the House and Senate Appropriations Subcommittees on Legislative Branch Appropriations. The Library also receives funds from other agencies for services provided under the Economy Act and other statutes. In addition, the Library administers several fee-for-service revolving funds and receives donations from the public in the form of gifts and trusts. The trust funds are controlled by the Library of Congress Trust Fund Board, which consists of the Librarian of Congress (who is Chairman and Secretary of the Trust Fund Board), the Chairman and Vice-Chairman of the Joint Committee on the Library, the Secretary of the Treasury (or an assistant secretary designated in writing by the Secretary of the Treasury), and ten additional members appointed by the President (two), the U.S. House of Representatives (four), and the U.S. Senate (four).

Entity activities are those for which the Library has the authority to use the assets. Non-entity activities consist primarily of custodial accounts that are not available for use by the Library.

**B. Basis of Presentation**

The accompanying financial statements report the financial position, net costs, changes in net position, budgetary resources and financing of the Library for fiscal years 2004 and 2003. These consolidated and combined financial statements include the accounts of all funds under the Library's control, which have been established and maintained to account for the resources of the Library. They were prepared from the Library's financial management system in accordance with generally accepted accounting principles (GAAP).

Material intra-Library transactions and balances have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position. The Statement of Budgetary Resources is presented on a combined basis; therefore, intra-Library transactions and balances have not been eliminated from this statement. Intra-Library transactions and balances have been eliminated from all amounts on the Consolidated Statements of Financing, except for obligations incurred and spending authority from offsetting collections and recoveries, which are presented on a combined basis.

As a legislative branch agency, the Library is not required to follow the executive agency accounting principles established by the Comptroller General under 31 U.S.C. 3511 or the standards developed by the Federal Accounting Standards Advisory Board (FASAB). However, the Library maintains its fund balances with the Department of the Treasury and submits information required to incorporate its financial and budgetary data into the overall federal government structure. For purposes of financial management and reporting, the Library has issued a regulation (LCR 1510), which adopts the federal standards for financial reporting and internal controls in a manner consistent with a legislative agency. The Library has not adopted the Federal Financial Management Improvement Act of 1996, the Federal Managers Financial Integrity Act and the Government Performance and Results Act, as these standards are not applicable to the Library. However, the Library

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

uses these sources as guidance and reference in its operations.

The statements include 4 (4) appropriated fund accounts; 26 (26) revolving (and gift revolving) funds; 23 (18) reimbursable funds; 101 (101) trust funds; and 126 (124) gift funds for fiscal year 2004 (and 2003, respectively).

**C. Basis of Accounting**

The Library's financial statements conform to accounting principles generally accepted in the United States of America as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants recognizes FASAB Standards as generally accepted accounting principles for federal reporting entities.

The statements were also prepared based on guidance published in the Office of Management and Budget (OMB) Bulletin 01-09, Form and Content of Agency Financial Statements. The Library is not required to adopt this bulletin, and accordingly has elected to use the disclosures management deems necessary for the fair presentation of financial statement information.

The accounting structure of the Library is designed to reflect both accrual and budgetary accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The budgetary accounting, on the other hand, is designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The budgetary accounting facilitates compliance with legal constraints on and controls over the use of federal funds.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and

expenses during the reporting period. Actual results could differ from these estimates.

**D. Revenues and Other Financing Sources**

**• Appropriations**

The Library receives the majority of its funding to support its programs through four appropriations that include both annual and no-year funding. The appropriated funds may be used, within statutory limits, for operating and capital expenditures including equipment, furniture and furnishings. Appropriations are recognized as revenues at the time they are expended. The four appropriations for fiscal year 2004 are:

- Library of Congress, Salaries and Expenses - (annual and no-year)
- Copyright Office, Salaries and Expenses - (annual and no-year)
- Congressional Research Service, Salaries and Expenses - (annual)
- National Library Service for the Blind and Physically Handicapped, Salaries and Expenses - (annual and no-year)

**• Earned Revenues**

Additional amounts are obtained through reimbursements from services performed for other federal agencies as authorized by the Economy Act and the Library's annual appropriations legislation. In addition, the Library operates several self-sustaining revolving funds that generate revenues from the sale of various products and services to the public and federal customers. Revolving and reimbursable fund revenue is recognized when goods have been delivered or services rendered.

Under the authority of 2 U.S.C. 182, the Cooperative Acquisitions Revolving Fund was established on October 1, 1997, and is the program under which the

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Library acquires foreign publications and research materials on behalf of participating institutions on a cost-recovery basis. 2 U.S.C. 182 was amended for the establishment of revolving funds for Audio and Video Duplication, Gift Shop Operations, Decimal Classification, Photo Duplication, Special Events, FEDLINK and Federal Research Program. The Audio and Video Duplication fund provides audio and video duplication and delivery services which are associated with the national audiovisual conservation center. The Decimal Classification fund performs decimal classification development. The Gift Shop fund operates a gift shop and other sales of items associated with collections, exhibits, performances, and special events at the Library. The Photo Duplication fund provides document reproduction and microfilming services. The Special Events fund performs services related to the hosting of special events and programs by the Librarian in Library facilities. The FEDLINK program is the program of the Library under which procurement of publications and library support services, along with related accounting, education and support services are provided to Federal Government or District of Columbia entities. The Federal Research Program provides research reports, translations and analytical studies for Federal Government or District of Columbia entities.

- **Imputed Financing Sources**

In accordance with FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and for the Federal Government Standards," the Library has recorded expenses for the unreimbursed full costs of goods and services that it receives from other legislative branch agencies (i.e., the Architect of the Capitol and the Government Printing Office) and executive branch agencies specifically identified for fiscal years 2004 and 2003 reporting by OMB, (i.e., the Office of Personnel Management (OPM) and the Department of the Treasury). Since these costs are not actually paid to the other agencies, an imputed financing source is recorded to offset these costs that are financed by the other Federal agencies.

- **Custodial Funds**

The Library of Congress Copyright Office Licensing Division administers the compulsory and statutory licenses covered by the Copyright Act (17 U.S.C.). The Licensing Division receives royalty fees from cable television operators for retransmitting television and radio broadcasts, from satellite carriers for retransmitting "super station" and network signals, and from importers and manufacturers for distributing digital audio recording technologies (DART). Refunds may arise when a cable, satellite, or DART remitter inadvertently overpays or is otherwise entitled to a refund. The Licensing Division invests the licensing royalty fees in market-based U.S. Treasury notes and bills. Because these investments are held in a custodial capacity for the copyright owners, income does not accrue to the Library's benefit.

If controversies arise regarding the distribution of the royalties, the Librarian convenes a Copyright Arbitration Royalty Panel. The panel consists of three arbitrators selected from a list of professional arbitrators nominated by professional arbitration associations. The Librarian, upon the recommendation of the Register of Copyrights, selects two of the three arbitrators who, in turn, select the third arbitrator. This individual serves as the chairperson of the panel.

The Librarian reviews the panel's decisions and has 90 days to adopt or reject the panel's decision. Decisions may be appealed to the United States Court of Appeals for the District of Columbia Circuit.

- **Donation and Interest Revenue**

The Library receives monetary gifts from donors and receives interest on invested funds. The Library also received gifts of donated property or services during fiscal years 2004 and 2003. The Library records these in-kind donations as donated revenue in the period earned and an offsetting expense in the same period. The Ad Council provided nearly all of the in-kind donations in the form of free advertising for America's website. US Airways provided airfare in exchange for

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being the official airline of the Library's annual book festivals and several other meetings. EMTEC Promedia provided recording tapes to the Library. Finally, the Ira and Leonore Gershwin Trust Fund and Related Charitable Trust provided in-kind materials and services to the Library.

- **Deferred Credits**

The Library received gifts subject to certain conditions being met. These are not considered earned until the conditions are met, and are recorded as deferred credits until earned.

**E. Gift and Trust Funds**

The Library administered gift and trust funds with combined asset value of approximately \$148 million and \$139 million during fiscal years 2004 and 2003, respectively. Funds are restricted as to their use, which must be in accordance with the terms of the gift agreement. In general, funds are either temporarily restricted (principal may be spent) or permanently restricted (principal may not be spent). Additional restrictions may be imposed on trust funds by the terms of a trust agreement or donor's will. Library fund managers administer and oversee the gift and trust funds to ensure they are used as directed by the donors and in accordance with Library policy.

**F. Fund Balance with Treasury**

The amount shown as Fund Balance with Treasury represents the balances of the appropriated, reimbursable, gift and trust, revolving, deposit and custodial funds that are on deposit with the U.S. Treasury.

**G. Cash and Other Monetary Assets**

Cash and other monetary assets are defined as all cash not held by the U.S. Treasury. This category includes deposits in transit, cash on hand and imprest funds.

The Library receives and utilizes foreign currencies in carrying out operations abroad as it conducts business through six overseas offices. Foreign currency balances at year-end are immaterial to the financial statements.

**H. Investments (Net)**

Gift and Trust Funds - The Library of Congress Trust Fund Board determines the investment policy for the Library's gift and trust funds. The policy provides three options for investment of trust funds:

- a permanent loan with the U.S. Treasury
- a pool of U.S. Treasury market-based securities
- a private investment pool consisting of the following stock, index and money market funds utilized during fiscal year 2004 and 2003:
  - Vanguard Institutional Index
  - Vanguard Total Stock Admiral Index
  - Vanguard Prime Money Market Fund
  - Fidelity Fifty Fund
  - Fidelity Stock Selector
  - Vanguard Capital Opportunity Fund

The policy for gift funds allows only for investment in U.S. Treasury market-based securities.

Under 2 U.S.C. 158, up to \$10 million of the Library's gift and trust funds may be invested with the U.S. Treasury as a permanent loan at a floating rate of interest, adjusted monthly, but no less than four percent per annum. The permanent loan is an interest bearing investment recorded at cost, which is market value.

Treasury securities are intended to be held to maturity, are valued at cost, and are adjusted for the amortization of discounts and premiums. Interest is computed using the straight-line method, which approximates the effective interest method.

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Stock and money market funds are stated at current market value and are considered available for sale. Unrealized gains and losses are recognized and recorded as a component of non-exchange revenue in the statement of changes in net position.

All gift and trust fund investments are obtained and held by the gift and trust funds under conditions set forth in the respective gift and trust instruments.

Custodial Fund - Copyright royalties collected by the Copyright Office on behalf of copyright owners are invested, net of service fees, in U.S. Treasury securities. Treasury securities are intended to be held to maturity, are valued at cost and are adjusted for the amortization of discounts and premiums. Interest is computed using the straight-line method, which approximates the effective interest method. These investments will be held until distributions are made to copyright owners. Income accrues to the benefit of the copyright owners.

Deposit Funds - Pursuant to Public Law 105-80, funds deposited by copyright applicants are invested, based on the unearned balance available, by the Copyright Office in U.S. Treasury securities. Treasury securities are intended to be held to maturity, are valued at cost and are adjusted for the amortization of discounts and premiums. Interest is computed using the straight-line method, which approximates the effective interest method. These investments will be held until the deposit fees are earned and income accrues to the benefit of the Copyright Office.

**I. Accounts Receivable**

Accounts receivable primarily resulted from billings to other federal agencies under reimbursable interagency agreements for database retrieval and other library services. The Library has established an allowance for doubtful accounts against accounts receivable due from non-federal customers, based on past collection experience. The Library does not record allowance for doubtful accounts for intragovernmental accounts receivable in accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities,"

which cites that "losses on receivables should be recognized when it is more likely than not that the receivable will not be totally collected." Intragovernmental receivables are likely to be totally collected.

**J. Pledges Receivable**

Contributions of unconditional promises to give (pledges) to the Library and the Library of Congress Trust Fund Board are recognized as donated revenue in the period the pledge is received. They are recorded at their estimated present value using a market-based discount rate. Accretion of the discount in subsequent years is also recorded as donated revenue. Substantially all of the Library's pledges are from major corporations or donors. In the past, the Library has collected all pledges in full, therefore, no allowance for uncollectible pledges has been established.

**K. Inventory and Related Property**

The Library's inventories and supplies and materials are primarily comprised of bibliographic products, unissued supplies and unused postage that will be consumed in future operations; materials used to reproduce printed materials; sound recordings for both internal and external sales; and sales shop merchandise for resale. Consumable operating supplies are valued at cost using a first-in first-out method of valuation. Sales shop merchandise is valued at cost or market, whichever is lower. The recorded values of inventory and operating materials and supplies are adjusted for the results of periodic physical counts.

**L. Property and Equipment**

For fiscal years prior to 1998, the Library capitalized furniture and equipment at cost if the initial acquisition cost was \$10,000 or more. Starting in fiscal year 1998, the Library capitalizes furniture and equipment at cost if the initial acquisition cost is \$25,000 or more. Depreciation is computed on a straight-line basis using estimated useful lives.

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Property and equipment accounts are maintained in three categories of funds: Appropriated, Reimbursable and Revolving. The appropriated fund category includes all property and equipment used by the Library for general operations. Property and equipment purchased by the Integrated Support Services Administrative Working Fund are recorded in the reimbursable funds. Property and equipment purchased by FEDLINK, the Federal Research Program, Document Reproduction and Microfilm Service, Audio Visual Services, and the Cooperative Acquisitions Program are recorded in the revolving funds.

The Library occasionally acquires property and equipment by direct gift or by purchase from funds donated for a specific purpose or project. Because property is generally not restricted for use to gift and trust activities, property accounts are not maintained in the gift and trust funds. Capitalized property and equipment acquired through gifts are recognized as donated revenue in the gift and trust funds and transferred to the Library's appropriated fund. The Library records the donated property and equipment at its fair market value at the time of the gift.

Until 2002, the largest category of equipment was for the National Library Service for the Blind and Physically Handicapped lending program, which is classified as equipment on loan to the public. The Library purchased this unique, specially designed equipment from the manufacturer in large lots with a high bulk value. For financial reporting purposes, the machines were grouped by the aggregate amount purchased and shipped to machine lending agencies during a fiscal year. Each fiscal year group was then accounted for over the estimated useful life of the assets in the aggregate. The value of the equipment did not include any freight or postage costs. These shipping costs were included under the U.S. Postal Service's "free matter for the blind and physically handicapped." See note 1.R for 2003 change in accounting principle.

Operating equipment is amortized over a 3 to 20-year period. Software includes ADP software purchased

from outside vendors and software defined as "internal use software" in accordance with SFFAS No. 10, "Accounting for Internal Use Software." All software recorded has an estimated useful life of three years or more and a value of at least \$10,000 per item acquired in fiscal years 1997 and prior or at least \$100,000 per item acquired in fiscal years after 1998.

Leased equipment meeting the criteria for capitalization in accordance with Statements of Federal Financial Accounting Standards is included in property and equipment.

Land and buildings are excluded from the Library's property and equipment accounts because they are under the custody and control of the Architect of the Capitol. This arrangement encompasses four Capitol Hill buildings (the Thomas Jefferson, James Madison, John Adams Buildings, and the Special Facilities Center) and a secondary storage facility at Fort Meade, Maryland. The Architect receives an appropriation from Congress to fund maintenance, care and operations of the Library's buildings and grounds. Costs associated with the acquisition and maintenance of these buildings is accounted for by the Architect. However, the Library has recorded the inter-entity cost and related imputed financing source in its books. The Library does capitalize and depreciate leasehold improvements to its facilities as long as the improvements were made using the Library's funding sources.

#### **M. Library Collections**

The Library's collections are classified as "heritage assets." Heritage assets are assets with historical, cultural educational, artistic or natural significance. The collections are priceless and in many cases irreplaceable. No financial value can be placed on them. So, in accordance with federal accounting standards, their value is not presented on the balance sheet. The cost of acquiring additions to the collections is expensed when incurred in the statement of net cost. Stewardship information covering the acquisition, use, preservation, and security of the collections is contained in a supplementary Stewardship Report.

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**N. Liabilities**

Liabilities represent the amounts that are likely to be paid by the Library as a result of transactions that have already occurred. Liabilities for which an appropriation has not been enacted, or which are the result of deposit account activities, are classified as liabilities not covered by budgetary resources. For accrued unfunded annual leave, compensatory time earned, workers' compensation and capital lease liabilities, it is not certain that appropriations will be enacted to fund these amounts.

Advances From Others are funds received for the revolving programs that have not yet been earned.

Custodial and Deposit Liabilities are customer funds on deposit for Copyright Photoduplication and Cataloging Distribution Service products and services. This category also includes the custodial funds for Copyright royalties.

Accrued Annual and Compensatory Leave - The Library's basic leave policy is contained in Title 5, U.S.C.; the Uniform Annual and Sick Leave Regulations of the Office of Personnel Management; and the decisions of the Comptroller General. Generally, each employee may carry forward a maximum of 240 hours of annual leave per calendar year. Accrued annual leave is accrued as it is earned and adjusted at the end of each fiscal year based on annual leave earned and taken. Annual leave earned in excess of the maximum permitted carryover is forfeited. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates.

Employees' compensatory time earned but not taken is also accrued at year-end. An employee may accumulate a maximum of 40 hours of compensatory time during the fiscal year. A maximum of 20 hours may be carried

forward from one leave year to the next only when it was earned during the last pay period of the leave year. Exceptions to the accumulation and carry forward rules require the approval of the Librarian or his/her designee.

Sick leave and other types of nonvested leave are expensed as taken.

Capital Lease Liabilities are liabilities resulting from capital leases of equipment. The Library's lease agreements are annual fiscal year contracts that are subject to the availability of funding. The agreements contain a lease to purchase provision and there is no penalty for discontinuing the lease and turning back equipment prior to the completion of the agreement.

**O. Federal Employee Retirement Benefits**

Approximately 38 percent of the Library's employees participated in the Civil Service Retirement System (CSRS) during fiscal years 2004 and 2003, to which the Library makes contributions equal to 7.0 percent of pay during fiscal years 2004 and 2003. Approximately 3 percent of employees under CSRS are also covered by Social Security (FICA), for which the Library's contribution is slightly less. An additional 58 percent and 53 percent of the Library's employees were covered by the Federal Employees Retirement System (FERS) during fiscal years 2004 and 2003, respectively, to which the Library's normal cost is 11.5 percent of pay, in addition to matching employee Thrift Savings Plan (TSP) contributions up to an additional five percent of pay (matched dollar-for-dollar on the first 3 percent of pay and 50 cents on the dollar for the next 2 percent of pay). Under FERS, the employee is also covered by FICA to which the Library contributes the employer's matching share. The remaining Library employees, 4 percent and nine percent during fiscal year 2004 and 2003, respectively, were only covered by FICA to which the Library contributes the employer's matching share.

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The accrued contributions due at the end of the fiscal year are reported as liabilities covered by budgetary resources.

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of Social Security, FERS and CSRS is not allocated to individual Federal departments and agencies. However, in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," current year expenses were recorded for the service cost of the Library's employee retirement, health and life insurance benefits during fiscal years 2004 and 2003, respectively, and was offset by an imputed financing source, which represents the amount being financed directly by OPM.

**P. Federal Government Transactions**

The financial activities of the Library interact with and depend on other federal government agencies. Thus, the Library's financial statements do not reflect all financial decisions and activities applicable to it as if it were a stand-alone entity. The financial statements do not contain the cost of activities performed for the benefit of the entire government, nor do they include the agency's share of the federal deficit or of public borrowings, including interest thereon. However, expenses have been recognized for expenses incurred by certain other agencies on behalf of the Library, including settlement of claims and litigation paid by the Treasury's Judgment Fund and the partial funding of employee benefits by OPM.

The Library's program for the blind and physically handicapped participates in the U.S. Postal Service's (USPS) "Matter for Blind and Other Handicapped Persons" program (39 U.S.C. 3403 - 3406). This Postal Service program receives an appropriation from Congress to provide free postage for qualifying organizations, programs, and individuals such as mail from war zones, letters from blind people to anyone, and organizations that work for the blind. The Library's National Library Service for the Blind and Physically Handicapped uses this free matter program for mailing all books and equipment to its participating

lending libraries and patrons. No cost for this has been determined, nor included in the Library's financial statements as the Library views the relationship with the USPS and state and local libraries as a partnership and not

Services Provided to other Federal Agencies:

- The Library is authorized to provide to other federal libraries and agencies services such as automated library information and other data base retrieval services through data base vendors and in-house research studies. These services are provided on a cost reimbursement basis and are billed in advance of providing the services. At year-end the Library estimates the amount received in advance (Advances From Others - Intragovernmental) and the amount to be received for services provided (Accounts Receivable - Intragovernmental).

Services Provided by other Federal Agencies:

Three governmental agencies provide administrative services to the Library on a reimbursable basis.

- The Department of Agriculture's National Finance Center (NFC) processes the Library's personnel, payroll, and employee benefits accounting transactions.
- The Library utilizes the services of the Department of State as documented by the International Cooperative Administrative Support Services (ICASS) system to support the Library's six overseas field offices.
- General Services Administration (GSA) provides building and vehicle leasing services for the Library.

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**Q. Related Party Organizations**

The Library lends support to several related organizations, projects, and programs from which it receives benefits in various forms. The following is a list of these organizations or programs:

**1. Telephone Pioneers of America** - The Telephone Pioneers is a large industry-related organization that voluntarily repairs playback machines for the blind and physically handicapped program. Approximately 1,500 Telephone Pioneers (AT&T retirees) and Elfuns (General Electric retirees) donate their time to repair the cassette book machines and talking book machines.

**2. Library of Congress Child Care Association (LCCCA)** - The LCCCA is a nonprofit corporation under the District of Columbia's Nonprofit Corporation Act. It was granted 501(c)(3) status by the Internal Revenue Service on August 31, 1992, and currently operates as the "Little Scholars Child Development Center." The center is located on the ground floor of the Library's Special Facilities Center, 601 East Capitol Street, District of Columbia. The center provides childcare for Library employees and other federal and non-federal employees. Its operations, management, and employees are the responsibility of the LCCCA and not the Library. However, the Library and the Architect of the Capitol support the center with equipment, free space, cleaning and maintenance of grounds and building, utilities, local telephone service, and security. The value of the services provided by the Library cannot be readily determined. In addition, the Library, in accordance with Public Law 106-554, pays the government contributions for individuals receiving health, life and retirement benefits provided by the Office of Personnel Management. The Library provides an official who is a non-voting

representative on the center's Board of Directors and who acts as a liaison with the Library.

**3. The Archer M. Huntington Charitable Trust** - This charitable trust was established in 1936 and is controlled and invested by the Bank of New York. The assets of the endowment are not a part of the Library of Congress Trust Fund Board and the board's only control over its investment activities is through the Librarian of Congress' role as trustee. The trust is defined as a split-interest agreement with a fair value of assets of \$4.9M and \$4.7M at September 30, 2004 and 2003, respectively. The Library is entitled to one-half of the income from the trust for perpetuity, which is used to support a rotating consultantship to bring "distinguished men of letters . . ." to the Library. Currently, the income assists in the funding of a "poet laureate" position, the acquisition of materials for the Library's Hispanic collections, and the promotion of activities of the Hispanic Division, particularly those that relate to Spain, Portugal and Latin America.

**4. Ira and Leonore Gershwin Trust Fund and Related Charitable Trust** - Under the will of Mrs. Leonore Gershwin, the Library of Congress Trust Fund Board is the beneficiary of 37.5 percent of Mrs. Gershwin's "1987 Trust." The will established the "Library Charitable Trust" which was accepted by the Library of Congress Trust Fund Board in January 1992. The primary purpose of the trust is to perpetuate the name and works of George and Ira Gershwin through all resources of the Library. The charitable trust does not belong to the Library but is a separate entity administered by trustees. The net income of the charitable trust is distributed to the Library's Ira and Leonore Gershwin Trust Fund yearly or upon the request of the Library. Income is recorded by the Library in the period received. The balance of principal of the charitable trust will be distributed to the

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Library in 2033, fifty years after the date of death of Ira Gershwin.

**R. Change in Accounting Principle**

Under the National Library Service for the Blind and Physically Handicapped (NLS) program, The Library acquires cassette machines and distributes them through the use of regional libraries (which are not part of the Library of Congress) to further its program to provide reading material for the blind and physically handicapped residents of the United States, its outlying areas and for U.S. citizens residing abroad.

Prior to fiscal year 2003, the Library capitalized annual bulk purchases of these machines and depreciated over 6 years based upon purchase date. Once the machines are shipped, the custodial and maintenance and distribution responsibilities for the machines reside with the regional libraries. During fiscal year 2003 the Library determined that it is preferable to recognize the initial purchase of machines as inventory items and expense them at the time they are distributed to the regional libraries for ultimate distribution to the individuals requiring assistance. The Library determined that the accounting treatment described above better reflects the economic nature of the transaction.

The change in accounting principle resulted in a cumulative adjustment of \$ 39,909,832 in fiscal year 2003. As a result of the change, net cost of operations and appropriations used decreased by \$ 126,833 in fiscal year 2003.

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**2 *Fund Balance With Treasury***

**A. Fund balance with Treasury at September 30, 2004 and 2003, is summarized as follows:**

(Dollars in Thousands)

	2004	2003
Appropriated Funds (2)	\$274,460	\$270,325
Revolving and Reimbursable Funds	62,115	57,476
Gift and Trust Funds (1)	12,014	13,956
Custodial, Deposit and Other Funds	1,901	2,526
<b>Total</b>	<b>\$350,490</b>	<b>\$344,283</b>

(1) At September 30, 2004 and 2003, the gift and trust fund balance with Treasury included \$10 million invested in the permanent loan, which is included in fund balance with Treasury, at interest rates of percent 4.5 and 4.75 percent, respectively.

(2) Pursuant to Public Law 106-554, \$75 million is unavailable for expenditure unless matched with non-Federal contributions for the NDIIPP that are received by March 31, 2005.

**B. Status of Fund Balance with Treasury**

	2004	2003
Unobligated Balances Available	\$121,657	\$134,432
Unobligated Balances Unavailable	20,020	16,039
Obligated Balances not yet Disbursed	208,813	193,812
<b>Total</b>	<b>\$350,490</b>	<b>\$344,283</b>

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**3 *Custodial Funds***

Custodial activity consists of the following:

(Dollars in Thousands)

	<b>2004</b>	<b>2003</b>
<b>Source of Cash Collection:</b>		
Licensing Fees	212,690	\$200,288
Investment Interest	8,818	8,980
Total Cash Collections	221,508	209,268
Investment Amortizations/Accruals	189	(189)
<b>Total Custodial Revenue</b>	<b>\$221,697</b>	<b>\$209,079</b>
<b>Disposition of Collections:</b>		
Payments to Copyright Owners	(154,130)	(65,590)
Refunds	(1,404)	(1,456)
Change in Investment Premium	(868)	(796)
Retained by Copyright Licensing for Administrative Costs	(3,141)	(5,356)
<b>Net Custodial Activity</b>	<b>62,154</b>	<b>135,881</b>
Beginning Custodial Liability	793,546	657,665
<b>Ending Custodial Liability</b>	<b>\$855,700</b>	<b>\$793,546</b>

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4 *Investments, Net*

Investments at September 30, 2004 and 2003 are as follows:

(Dollars in Thousands)

	2004			2003		
	A. Intragovernmental Investments Non-Marketable, Market-Based	B. Other Investments Private Sector	Total	A. Intragovernmental Investments Non-Marketable, Market-Based	B. Other Investments Private Sector	Total
<b>Face Value</b>	\$ 905,947		905,947	\$840,095		\$840,095
<b>Cost</b>		83,414	83,414		83,000	83,000
<b>Unamortized Premium</b>	54		54	899		899
<b>Unrealized Discount</b>	(1,212)		(1,212)	(456)		(456)
<b>Interest Receivable</b>	289		289	383		383
<b>Investments, Net</b>	<b>905,078</b>	<b>83,414</b>	<b>988,492</b>	<b>840,921</b>	<b>83,000</b>	<b>923,921</b>
<b>Market Value</b>	<b>904,885</b>	<b>68,814</b>	<b>973,699</b>	<b>\$841,240</b>	<b>\$61,298</b>	<b>\$902,538</b>

**A. Intragovernmental Investments**

Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. Trust fund investment maturity dates for fiscal years 2004 and 2003 range from October 7, 2004 to May 15, 2006 and October 2, 2003 to May 15, 2006, respectively, and interest rates for the same fiscal years range from 1.17 percent to 10.8 percent and .8 percent to 10.8 percent, respectively.

Custodial funds investment maturity dates for fiscal years 2004 and 2003 range from October 14, 2004 to August 31, 2005 and October 9, 2003 to August 31, 2004, respectively, and interest rates for the same fiscal years range from 1.415 percent to 2 percent and .8 percent to 3.6 percent, respectively.

**B. Other Investments**

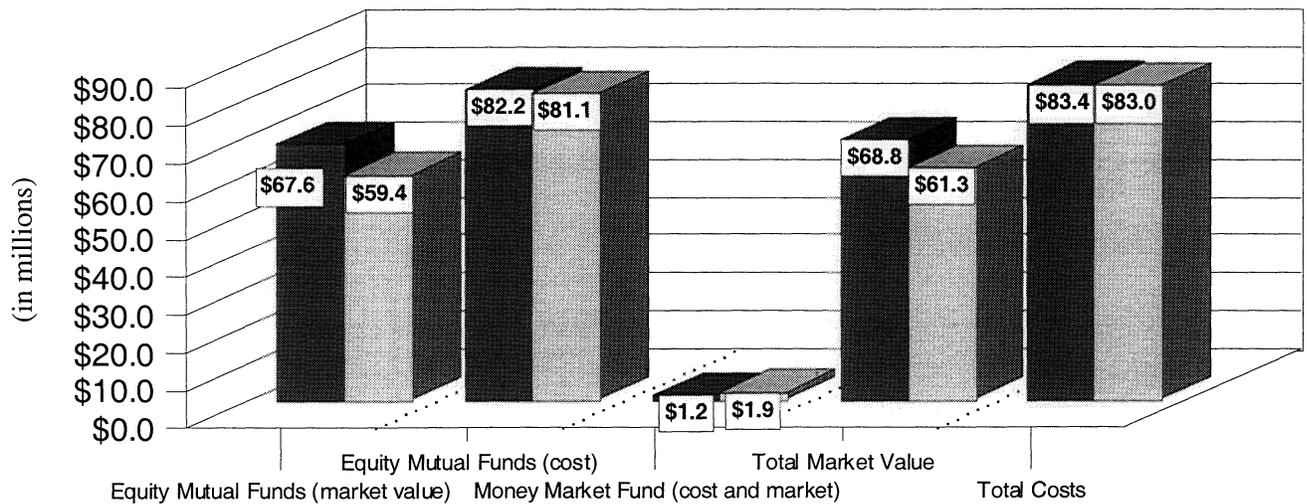
Other investments are the Library's investments in private sector money market and mutual funds. Cost was derived from the investments made plus reinvested gains, dividends, and interest.

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Balances at September 30, 2004 and 2003, are as follows:

## Non-Treasury Investments

Fiscal Year 2004    
  Fiscal Year 2003



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5 Receivables

The breakdown of consolidated gross and net accounts receivable at September 30, 2004 and 2003, are as follows:

**A. Accounts Receivable**

(Dollars in Thousands)

	2004	2003
Intragovernmental		
Accounts Receivable, Gross and Net	\$5,046	\$7,999
With the Public		
Accounts Receivable, Gross	475	872
Allowance for Doubtful Accounts	(28)	(35)
Accounts Receivable, Net	447	837

**B. Pledges Receivable**

At September 30, 2004 and 2003, the Library had unconditional pledges of contributions totaling \$8.1 million and \$10.8 million, which were discounted through fiscal years 2030 and 2012 at a market

discount rate and included in the statement of financial position at their discounted value of \$6.9 million and \$10.2 million, respectively.

The amounts due in future years, at September 30, at their current discounted value are:

(Dollars in Thousands)

Fiscal Year	2004	2003
2004	-	6,609
2005	3,586	1,720
2006	1,154	692
2007	658	187
2008	88	253
2009	86	-
2010-2012	1,376	731
<b>Total</b>	<b>\$6,948</b>	<b>\$10,192</b>

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**6** *Property and Equipment*

Property and equipment that were capitalized at September 30, 2004 and 2003 are as follows:

(Dollars in Thousands)

Classes of Property and Equipment	2004			2003		
	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value
Security Improvements – Leasehold Improvements in-progress	\$5,524	\$0	\$5,524	\$11,224	\$0	\$11,224
Operating equipment	72,475	61,037	11,438	67,645	53,582	14,063
Software	20,476	6,887	13,589	10,628	5,847	4,781
Furniture & Furnishings	985	466	519	985	410	575
Capital Leases	407	339	68	1,020	802	218
Leasehold Improvements	14,770	9,790	4,980	10,745	9,218	1,527
<b>Total</b>	<b>\$114,637</b>	<b>\$78,519</b>	<b>\$36,118</b>	<b>\$102,247</b>	<b>\$69,859</b>	<b>\$32,388</b>

See note 1.R for change in accounting principle.

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

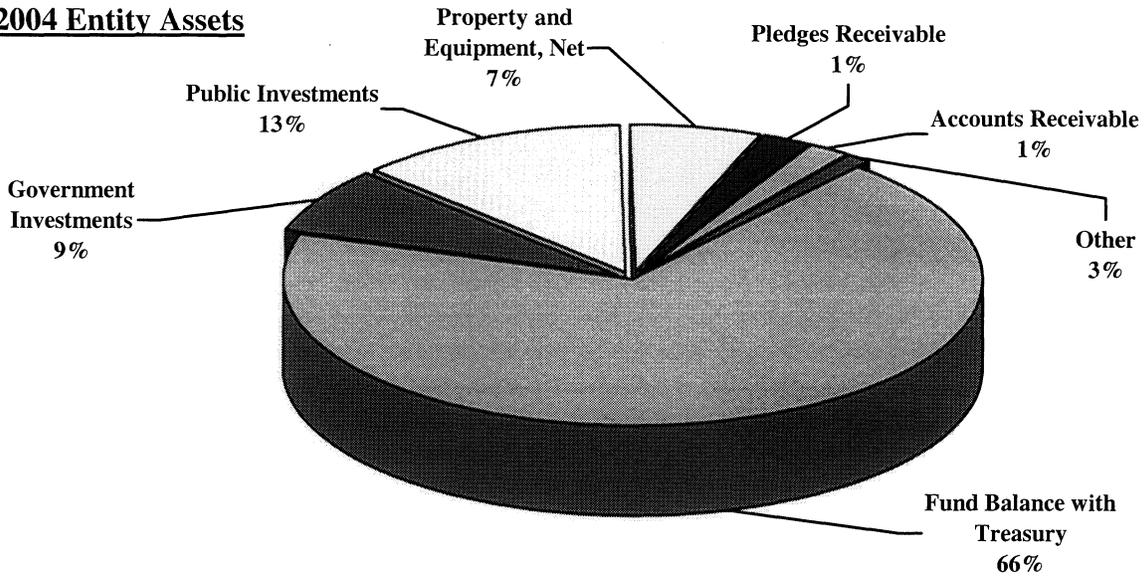
**7** *Entity and Non-Entity Assets*

(Dollars in Thousands)

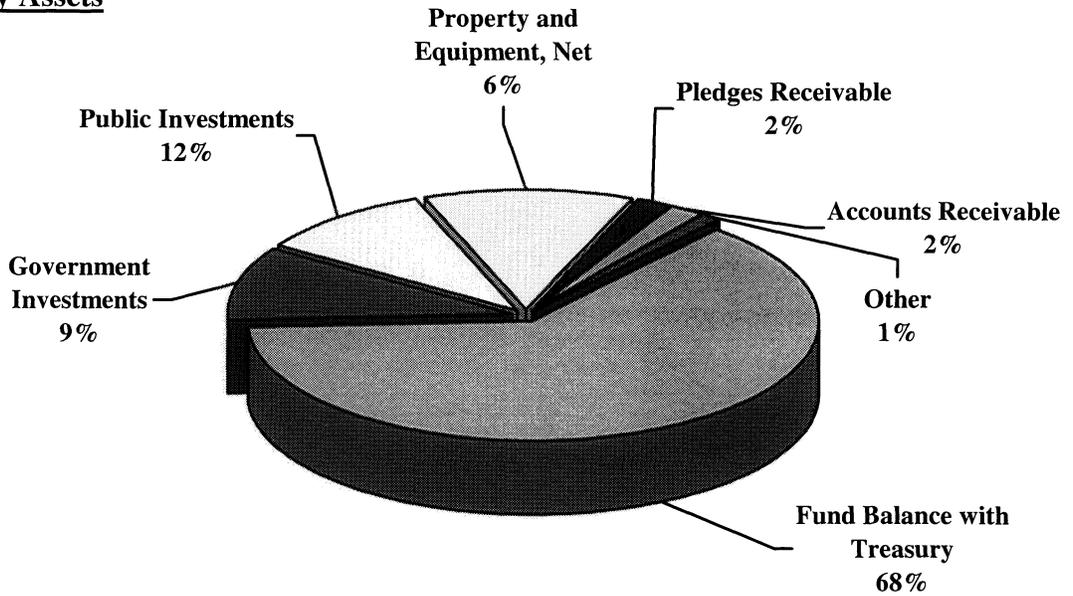
	2004			2003		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental Assets						
Fund Balance with Treasury	\$350,369	\$121	\$350,490	\$343,500	\$783	\$344,283
Investments	49,493	855,585	905,078	47,001	793,920	840,921
Accounts Receivable, Net	5,042	4	5,046	7,995	4	7,999
Other Assets	5,535		5,535	1,654		1,654
Investments	68,814		68,814	61,298		61,298
Pledge Receivable - Donations	6,948		6,948	10,192		10,192
Cash and other Monetary Assets	442		442	762	9	771
Inventory	1,541		1,541	1,955		1,955
Property and Equipment, Net	36,118		36,118	32,388		32,388
Other Assets	7,095	2	7,097	7,300	2	7,302
<b>Total</b>	<b>\$531,397</b>	<b>\$855,712</b>	<b>\$1,387,109</b>	<b>\$514,045</b>	<b>\$794,718</b>	<b>\$1,308,763</b>

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

**2004 Entity Assets**



**2003 Entity Assets**



**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

8 Leases

**A. Capital Leases**

\$68,010 and \$217,924 as of September 30, 2004 and 2003, respectively. Estimated future minimum lease payments are as follows:

The Library has assets under capitalized leases for machinery and equipment at a net book value of

(Dollars in Thousands)

Fiscal Year Ended September 30	2004	2003
2004	\$0	\$195
2005	108	159
2006	23	23
2007	0	0
2008	0	0
2009 and thereafter	0	0
Total Future Lease Payments	131	377
Less: Imputed Interest	33	84
<b>Net Capital Lease Liability</b>	<b>\$98</b>	<b>\$293</b>

**B. Operating Leases**

The Library leases office space and vehicles from the General Services Administration and has entered into other operating leases for various types of equipment. Additionally, the Library's overseas field offices lease operating space from the Department of State. Lease

costs for office space, vehicles and equipment for fiscal years 2004 and 2003 amounted to \$ 3,654,466 and \$2,723,359 respectively. Under existing commitments as of September 30, estimated future minimum lease payments through fiscal year 2009 are as follows:

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

(Dollars in Thousands)

Fiscal Year Ended September 30	2004	2003
2004	\$0	2,617
2005	2,656	2,478
2006	199	857
2007	156	55
2008	101	0
2009 and thereafter	57	0
<b>Total Estimated Future Lease Payments</b>	<b>\$3,169</b>	<b>\$6,007</b>

**9 Workers' Compensation**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Library employees under FECA are administered by the Department of Labor (DOL) and later billed to the Library.

The Library is using estimates provided by DOL to report the FECA liability. The Library accrued

\$1,615,594 and \$1,671,034 of unbilled or unpaid workers' compensation costs as of September 30, 2004 and 2003, respectively. The amount owed to DOL is reported on the Library's Balance Sheet as an intragovernmental liability. The Library also established an estimated unfunded liability payable to employees, for future costs based on historical claims rates. The estimated future unfunded liability is \$8,469,878 and \$8,793,261 as of September 30, 2004 and 2003, respectively, and is based on a ten-year projection. This liability is recorded on the Balance Sheet as a liability with the public.

**10 Contingent Liabilities**

Several claims relating to employment matters are outstanding against the Library. While management cannot predict the outcome of the claims and is unable to estimate the potential loss, the maximum loss under each claim may not exceed \$300,000 in compensatory damages, plus any equitable relief (back pay, front pay, attorney's fees). Under law, any claims settled internally would be paid from the Library's funds and

any claims defended in court would be settled by the Treasury's Claims, Judgments and Relief Act Fund.

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

**11 *Other Liabilities***

Other Liabilities as of September 30, 2004 and 2003 are comprised of the following:

(Dollars in Thousands)

	2004	2003
Deferred Credits and pledges	\$2,824	\$508
Advances from the Public	2,503	2,171
Capital Lease Liability	98	293
<b>Totals Other Liabilities</b>	<b>\$5,425</b>	<b>\$2,972</b>

**12 *Liabilities Covered and Not Covered by Budgetary Resources***

(Dollars in Thousands)

	2004	2003
Liabilities Covered by Budgetary Resources	\$934,148	\$873,288
Liabilities Not Covered by Budgetary Resources – Intra Governmental	1,615	1,671
Liabilities Not Covered by Budgetary Resources - Other	30,017	31,158
<b>Total Liabilities</b>	<b>\$965,780</b>	<b>\$906,117</b>

Liabilities covered by budgetary resources include accounts payable, advances from others, accrued funded payroll and benefits, custodial liabilities, deposit account liabilities, advances from the public, and deferred credits. Liabilities not covered by

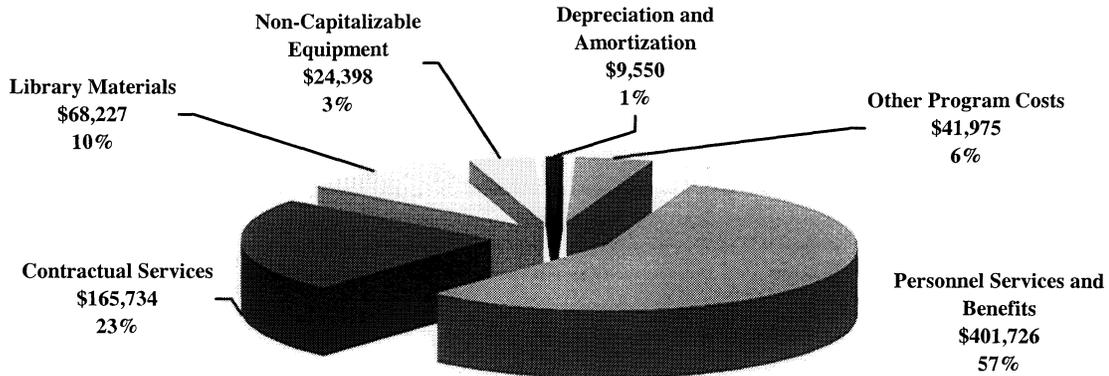
budgetary resources include accrued unfunded annual and compensatory leave, accrued unfunded workers compensation, capital lease liability and other unfunded liabilities.

**THE LIBRARY OF CONGRESS  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Fiscal Years Ended September 30, 2004 and 2003**

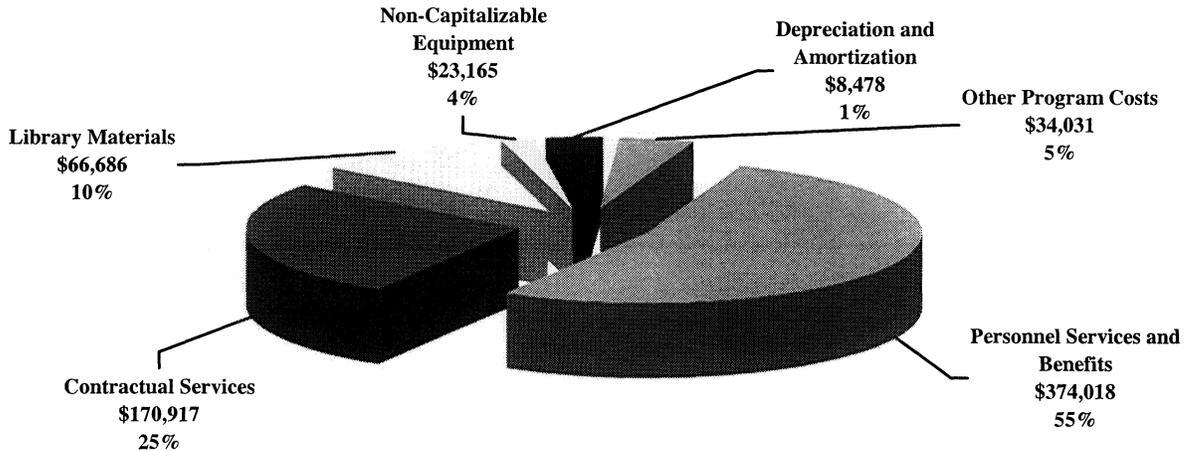
**13 *Program Costs by Budget Object Classification***

(Dollars in Thousands)

**FY 2004 Program Costs by Budget Object Classification**



**FY 2003 Program Costs by Budget Object Classification**



The Library's collections are classified as "heritage assets". \$17,996 and \$21,238 of the amount designated as "Library Materials" above represents the fiscal years 2004 and 2003 cost incurred by the Library for "heritage assets."

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

<b>14</b> <i>Program Costs and Earned Revenue by Functional Classification</i>
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**Program Costs by Functional Classification - Consolidated**

(Dollars in Thousands)

Function Classification	2004	2003
Commerce and Housing Credit	\$59,102	\$60,675
Education, Training, Employment and Social Services	534,647	503,811
General Government	117,848	112,786
Income Security	13	23
<b>Total</b>	<b>\$711,610</b>	<b>\$677,295</b>

**Earned Revenue by Functional Classification – Consolidated**

(Dollars in Thousands)

Function Classification	2004	2003
Commerce and Housing Credit	\$26,955	\$28,557
Education, Training, Employment and Social Services	77,437	68,929
General Government	18	17
<b>Total</b>	<b>\$104,410</b>	<b>\$97,503</b>

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

**15 Program Costs and Earned Revenue for Revolving Funds**

(Dollars in Thousands)

	2004	2003
<b>Audio Visual Services:</b>		
Program Cost	\$822	\$843
Less Earned Revenue	161	\$171
Net Program Cost	\$661	\$672
<b>Cooperative Acquisitions Program:</b>		
Program Cost	2,112	2,222
Less Earned Revenue	2,046	2,335
Net Program Cost	66	(113)
<b>Decimal Classification:</b>		
Program Cost	314	431
Less Earned Revenue	337	497
Net Program Cost	(23)	(66)
<b>Document Reproduction and Microfilm Services:</b>		
Program Cost	3,596	3,846
Less Earned Revenue	2,023	2,734
Net Program Cost	1,573	1,112
<b>Gift Shop Operations:</b>		
Program Cost	1,285	1,326
Less Earned Revenue	1,378	1,265
Net Program Cost	(93)	61
<b>Federal Research Division:</b>		
Program Cost	2,169	2,074
Less Earned Revenue	2,127	1,824
Net Program Cost	42	250
<b>FEDLINK:</b>		
Program Cost	63,341	53,023
Less Earned Revenue	63,062	53,416
Net Program Cost	279	(393)
<b>Special Events:</b>		
Program Cost	2,404	305
Less Earned Revenue	1,316	154
Net Program Cost	1,088	151
<b>Total Program Cost</b>	<b>\$76,043</b>	<b>\$64,070</b>
<b>Less Total Earned Revenue</b>	<b>\$72,450</b>	<b>\$62,396</b>
<b>Total Net Program Cost</b>	<b>\$3,593</b>	<b>\$1,674</b>

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

**16 Exchange Revenues**

In accordance with Library of Congress Regulation (LCR) 1510, Financial Services, the Library must comply with any OMB circular or bulletin if it is specifically prescribed in (1) a LCR, (2) a FSD Directive, or (3) if required by law. OMB Circular No. A-25, User Charges, does not fall into any of these three categories, but may be used by the Library as a useful point of reference. Circular No. A-25 requires that user charges be sufficient to recover the full costs to the federal government. Full costs include all direct and indirect costs to any part of the federal government of providing the good or service, including unreimbursed inter-entity costs.

The Copyright Office's registration operations have legislatively mandated fees, which do not require the

recovery of the full costs of operations. The Register is authorized to fix fees at a level not more than necessary to recover reasonable costs incurred for services plus a reasonable adjustment for inflation. Fees should also be fair and equitable and give due consideration to the objectives of the copyright system.

If the Library were to increase fees and prices to recover full costs to the government for providing these goods and services, this would in some cases reduce the quantity for goods and services demanded. It is not practicable to provide reasonable estimates regarding (1) revenue foregone from charging fees that do not recover full costs to the government and (2) to what extent the quantity of goods and services demanded would change as a result of changes in prices and fees.

**17 Classification of Program Costs**

(Dollars in Thousands)

Fiscal Year 2004	Intragovernmental		Public	Total
	Production	Non-Production	Production	
National Library	\$95,494	\$72	\$278,210	\$373,776
Law Library	6,788	4	12,994	19,786
Copyright Office	18,188	98	40,817	59,103
Congressional Research Service	29,595	20	89,638	119,253
National Library Service for the Blind and Physically Handicapped	4,932	4	45,866	50,802
Revolving and Reimbursable Funds	6,962	36	81,892	88,890

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

(Dollars in Thousands)

Fiscal Year 2003	Intragovernmental		Public	Total
	Production	Non-Production	Production	
National Library	\$99,144	\$0	\$258,571	\$357,715
Law Library	5,593	0	12,603	18,196
Copyright Office	22,391	35	38,242	60,668
Congressional Research Service	30,314	0	83,265	113,579
National Library Service for the Blind and Physically Handicapped	4,731	0	46,057	50,788
Revolving and Reimbursable Funds	6,477	86	69,786	76,349

**18** *Imputed Financing Sources*

(Dollars in Thousands)

Agency	2004	2003
Architect of the Capitol – Library buildings and grounds costs	\$37,232	\$36,203
Government Printing Office – exchange program costs	801	746
Office of Personnel Management – staff benefit costs	31,032	25,637
US Treasury Judgment Fund – Imputed Costs	435	178
<b>Total</b>	<b>\$69,500</b>	<b>\$62,764</b>

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

**19 *Budgetary Resources***

Budgetary resources are classified as follows:

(Dollars in Thousands)	2004			2003		
	Appropriated Capital	Non- Appropriated Capital	COMBINED	Appropriated Capital	Non- Appropriated Capital	COMBINED
<b>Budgetary Resources</b>						
Budget authority						
Appropriations received	\$526,105	\$235,912	\$762,017	\$506,616	\$227,595	\$734,211
Net transfers (+/-)	(249)	0	(249)	(497)	0	(497)
Other	0	0	0	(1)	21	20
Unobligated balance:						
Beginning of period	127,179	850,325	977,504	139,903	713,573	853,476
Spending authority from offsetting collections						
Earned						
Collected	876	120,643	121,519	2,507	106,767	109,274
Receivable from Federal sources	19	(1,714)	(1,695)	0	1,482	1,482
Change in unfilled customer orders						
Advance received	0	1,500	1,500	0	2,168	2,168
Without advance from Federal sources	0	(2,416)	(2,416)	0	(521)	(521)
Transfers from trust funds	0	293	293	0	382	382
Subtotal	895	118,306	119,201	2,507	110,278	112,785
Recoveries of prior year obligations	17,358	8,120	25,478	4,914	2,845	7,759
Temporarily not available pursuant to Public Law	0	371	371	(1)	36	35
Permanently not available-Cancellation of Authority	(3,677)	(160)	(3,837)	(3,323)	(268)	(3,591)
Permanently not available-Enacted Recissions	(3,104)	0	(3,104)	(3,441)	0	(3,441)
<b>Total Budgetary Resources</b>	<b>\$664,507</b>	<b>\$1,212,874</b>	<b>\$1,877,381</b>	<b>\$646,677</b>	<b>\$1,054,08</b>	<b>\$1,700,757</b>

**THE LIBRARY OF CONGRESS**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended September 30, 2004 and 2003**

(Dollars in Thousand)	2004			2003		
<b>Status of Budgetary Resources:</b>						
Obligations incurred, direct & reimbursable	\$554,689	\$293,382	\$848,071	\$519,498	\$203,755	\$723,253
Unobligated balance-Exempt from Apportionment	103,032	919,377	1,022,409	121,453	850,861	972,314
Unobligated balance not available-other	6,786	115	6,901	5,726	(536)	5,190
<b>Total Status of Budgetary Resources</b>	<b>664,507</b>	<b>1,212,874</b>	<b>1,877,381</b>	<b>\$646,677</b>	<b>\$1,054,080</b>	<b>\$1,700,757</b>
<b>Relationship of Obligations to Outlays</b>						
Obligated balance, net, beginning of period	143,181	48,496	191,677	\$108,950	\$40,703	\$149,653
Obligated balance transferred, net (+/-)						
Obligated balance, net, end of period:						
Accounts receivable	(19)	(1,174)	(1,193)	0	(2,894)	(2,894)
Unfilled customer orders from Federal sources	0	(3,873)	(3,873)	0	(6,284)	(6,284)
Undelivered orders	137,365	33,668	171,033	115,883	38,491	154,374
Accounts payable	27,299	14,987	42,286	27,298	19,183	46,481
Total obligated balance, net, end of period	164,645	43,608	208,253	143,181	48,496	191,677
Outlays:						
Disbursements	515,849	294,281	810,130	480,353	192,155	672,508
Collections	(876)	(122,436)	(123,312)	(2,507)	(109,317)	(111,824)
<b>Total Outlays</b>	<b>\$514,973</b>	<b>\$171,845</b>	<b>\$686,818</b>	<b>\$477,846</b>	<b>\$82,838</b>	<b>\$560,684</b>

For trust funds, approximately \$11.3 million and \$9.1 million of unobligated authority for fiscal years 2004 and 2003, respectively, at the donor's request, is restricted from being spent on program costs (income from investing restricted donations under the Library's Total Return Policy can be spent on program costs).

These amounts are invested either in the permanent loan or in Treasury securities. An additional \$75.0 and \$73.5 million of restricted authority has been obligated and expended to invest in non-Treasury securities for the fiscal years 2004 and 2003, respectively.

# THE LIBRARY OF CONGRESS

## STEWARDSHIP REPORT

# THE LIBRARY OF CONGRESS

## STEWARDSHIP REPORT

### HERITAGE ASSETS

September 30, 2004

#### Overview of the Library Collections

The Library of Congress is the world's largest library collection of more than 130 million items, including research materials in over 470 languages and various media. The collections include more than 29 million books and other printed materials, 58 million sheets of manuscripts, 12 million photographs, 4.8 million maps, 5.1 million pieces of music, 2.7 million audio recordings, and 957 thousand motion pictures. The collection of incunabula (books printed before 1501) is the largest in the Western Hemisphere, and the collections of maps, atlases, newspapers, music, motion pictures, photographs, and microforms are probably the largest in the world. Other collections include drawings, posters, prints, technical reports and other printed materials; computer programs; videotapes and disks; talking books; and other audio and visual materials. Each workday the Library adds more than 10,000 items to its collections for use by the Congress and the nation.

In a collection as large and as diverse in formats as the Library's, decisions are made continually as to the appropriate level for the application of stewardship controls: should the Library's collection be controlled at the item level or at the collection level? While the optimum control would be to secure every individual item, such a minute level of control cannot be globally achieved at a reasonable cost or within a reasonable amount of time. Therefore, the Library has chosen to use each of the control measures, as an individual technique and in synergy with each other, to exert the appropriate level of control to particular segments of the collection.

The Library's five tiered framework of risk, first formulated and published in the 1997 Security Plan, remains the unifying construct in the security plan as of

the end of the fiscal year. The five tiers are: **platinum** (the most priceless items); **gold** (items having prohibitive replacement costs, high market value, and significant cultural, historical, and or artifactual importance); **silver** (items requiring special handling or are at high risk); **bronze** (items without special restriction in the Library's reading rooms and materials that may be loaned without stringent restriction); and **copper** (items the Library does not intend to retain but is held until a decision is made).

Recognizing that resource constraints preclude protecting the entire universe of the collections at the platinum level established for the nation's treasures, the Library approach sets clearly defined, differentiated degrees of protection. As an example, the Library has a vast collection of sheet maps that are not individually cataloged and are therefore controlled only at the collection level. Lacking item level control, the maps are only served to a reader under conditions of strict physical security. In contrast, most of the book collections of the Library have item level control and may therefore circulate among the various reading rooms and even to be loaned to other libraries. This ground-breaking approach to collections security has been shared with a wide array of professional associations and, at the time of the development of this security plan, no other major cultural institution sampled was found to have a plan as complete as that of the Library.

The Library holds the papers of 23 presidents of the United States as well as papers of people from many diverse arenas – Susan B. Anthony, Sigmund Freud, Pamela and Averell Harriman, Henry Kissinger, Thurgood Marshall, Irving Berlin, and many others. The Library's treasures include one of three perfect copies in the world of the three-volume Gutenberg Bible printed on vellum, two of the five known copies

of the Gettysburg Address, Thomas Jefferson's handwritten draft of the Declaration of Independence, and many other rare books and manuscripts, including the oldest example of printing in the world. The most significant recent map acquisition is the highly prized 1507 world map by Martin Waldseemüller. One of the great treasures of the world and American history, the map is the earliest known document on which the name "America" appears.

An ongoing goal of the Library's acquisitions effort is to acquire recent books, serials, maps and other material documenting the American experience. Another goal is to acquire research quality materials published in languages other than English and in other countries that complement and extend materials published in the United States. During fiscal year 2004, the Library placed its collecting emphasis on:

- New electronic resources and
- Materials regarding the United States elections.

### **Collections Policy**

The collections are organized into two major categories: the print collections, which include classified books, rare books, serials, and pamphlets; and the special format collections, which include maps, motion pictures, music, manuscripts, photographs, sound recordings, and prints.

The Library's collections are universal and comprehensive in scope, building on Thomas Jefferson's concept that Congress' own interests are universal; however, the Library does not collect everything or accession everything it receives. The collection development policy has evolved over the years. In 1814, Jefferson offered to sell his personal library to the Library Committee of Congress in order to "recommence" the Congressional library after the British burned the U. S. Capitol destroying the Library of Congress. Jefferson stated: "I do not know that it contains any branch of science which Congress would wish to exclude from their collection; there is, in fact, no subject to which a Member of Congress may not have occasion to refer." In 1815, President James Madison approved an Act of Congress appropriating \$23,950 for the acquisition of Jefferson's library of 6,487 volumes.

As set forth in the Library's Collections Policy Statements, the Library's collection development policies are designed to fulfill its responsibilities to serve (1) the Congress and United States government as a whole, (2) the scholarly and library community, and (3) the general public. Written collection policy statements ensure that the Library makes every effort to possess all books and library materials necessary for the Congress and various offices of the United States government to perform their duties; a comprehensive record, in all formats, documenting the life and achievement of the American people; and a universal collection of human knowledge (except clinical medicine and technical agriculture, which are the responsibilities of the National Library of Medicine and National Agricultural Library, respectively) embodying primarily in print form the records of other societies, past and present. The Library makes available the Collection Policy Statements on its web site, providing immediate access to them for staff and other research institutions.

The Collections Policy Committee of the Library reviews the allocation budgets for acquisitions and travel for the purpose of acquiring materials. It also coordinates the review of the Collection Policy Statements and announces its work plan to all the recommending officers in the Library. The committee is composed of the:

- Director for Acquisitions & Bibliographic Services,
- Director for Collections & Services,
- Director for Preservation,
- Assistant Director for Bibliographic Access,
- Assistant Director for Special Collections & Services,
- Representatives from the Law Library and the Congressional Research Service.

**Digital Preservation** – The National Digital Information Infrastructure and Preservation Program (NDIIPP), funded by a fiscal year 2001 appropriation of 89.8 million from the U.S. Congress, continues to be the major focus for the Office of Strategic Initiatives (OSI). The program is overseeing the development of a digital preservation infrastructure consisting of a network of partners with defined roles and responsibilities working within a technical architecture. The NDIIPP "master plan," the result of an eighteen-month planning, research and consultation process, was approved by the Congress in December 2002.

At the end of fiscal 2004, awards of nearly \$15 million were made to eight institutions and their partners and

resulted in the first formal partnerships for NDIIPP as it builds the digital preservation network. The eight institutions have agreed to collect and preserve a broad range of important digital material that will be useful to current and future generations of researchers, scholars, and lifelong learners. The award winners are required to share what they learn during the three-year award cycle regarding issues such as best practices for collection and preservation. The awards were the result of an NDIIPP Program Announcement made in fiscal year 2003.

The Library of Congress also entered into a joint digital preservation project with Old Dominion University, Department of Computer Science; Johns Hopkins University, Sheridan Libraries; Stanford University Libraries & Academic Information Resources; and Harvard University Library to explore strategies for the ingest and preservation of digital archives.

This Archive Ingest and Handling Test (AIHT) is designed to identify, document and disseminate working methods for preserving the nation's increasingly important digital cultural materials, as well as to identify areas that may require further research or development. The AIHT is part of the overall NDIIPP initiative.

NDIIPP has partnered with the National Science Foundation (NSF) to establish the first research grants program to specifically address digital preservation. NSF will administer the program, which will fund cutting-edge research to support the long-term management of digital information.

The research program announcement coincided with the signing of a memorandum of understanding between the Library of Congress and NSF to collaborate over the next decade in a broad set of research activities related to digital libraries and digital archives. The formalized collaboration arose from a joint Library of Congress and NSF workshop in April 2002 that developed a research agenda in these areas. Through their leadership, NSF and the Library will encourage other government agencies to continue research support for improving the state of knowledge and practice of digital libraries and digital archiving.

**Building the Digital Collection** - During fiscal year 2004, the Library continued its three-pronged approach to making digital materials available to researchers: 1) born digital materials are acquired for the permanent

collections; 2) born digital materials are accessible in the Library but they are archived elsewhere; and 3) digital copies of tangible materials are created or acquired by the Library.

Twelve new thematic presentations of materials, ranging from Chinese manuscripts to early baseball guides, were added to the American Memory collections and other areas of the Library's Web site. Seventeen existing collections were expanded with new content. Other highlights included the following releases. *Voices from the Days of Slavery: Former Slaves Tell Their Stories* and *Zora Neale Hurston's Plays at the Library of Congress* were both released in conjunction with successful public events. The collection *Middle East in Pictures* supplied users with historical material closely tied to current events. *I Hear America Singing* presented its first collections, including *Historic Sheet Music: 1803-1922* and *The Gerry Mulligan Collection*. In June, *Selections from the Naxi Manuscript Collection* - documents that detail the unique cosmology of the Naxi people of the Yunnan Province in Southwest China - was released.

At the end of the fiscal year, there were 136 digital collections online comprising 9.26 million digital files. The American Memory Web, which includes the very popular Today in History feature, was updated with a new interface and additional functionality to improve usability and increased usage.

Resources collected from the World Wide Web in 2004 totaled 4.3 terabytes of information. The total Web resources collected from January 2001 through September 2004 is 15 terabytes. Materials collected include information on the war in Iraq, the 2004 elections, the 108th U.S. Congress and current public policy topics.

Significant additions to the Library's electronic collections were:

- *Eighteenth Century Collections Online*
- Several H.W. Wilson retrospective files: *Readers Guide Abstracts; Art Index; Index to Legal Periodicals; Humanities and Social Science Abstracts*

During this fiscal year, three new databases from East View Information Services were acquired:

- *Universal Database of Ukrainian Publications*
- *Universal Database of Russian National Bibliography*
- *Universal Database of Statistical Publications*

The AARP and the Leadership Conference on Civil Rights Committed to donate, in electronic format, its *Voices of Civil Rights* project, a collection of firsthand personal accounts of participants in the Civil Rights movement, including still and moving images, Web pages, audio recordings, documents, oral histories, manuscripts and research notes.

The Law Library continued to expand its online resources. Major acquisitions included the Nevo legal database from Israel, containing current statutes, regulations, court decisions and treaties, and the *Making of Modern Law*, containing the full text of all legal treatises published in Great Britain and the United States from 1801-1926.

*Electronic Serials* - LC became a member of the Electronic Journals Library (Elektronische Zeitschriftenbibliothek, or EZB) in fiscal year 2003. Since then, the LC-EZB partnership has been a model of collaboration, through which LC has discovered more than 7,000 online e-journals, providing freely accessible content of serious research value within scope for LC's collections. Membership in the EZB has also led to an exchange of bibliographic metadata with the Deutsche Bibliothek in Frankfurt for 16,000 e-journal titles.

In March, a Library official met in Leipzig with representatives of the EZB, Deutsche Bibliothek, German State Library in Berlin, and the Bavarian State Library to inaugurate discussion of a "whole life cycle" exchange of government e-journals. This project is intended to lead to an exchange between U.S. national libraries (including the Government Printing Office) and German National Libraries (including the EZB) of the following: 1) free access online to government e-journals; 2) the right to freely download and archive on their own servers a subset of the other government's e-journals; 3) metadata for those e-journals; 4) a commitment by each set of national libraries to preserve and provide access to its government's e-journals; and 5) electronic reference service in support of their government's e-journals. The proposal was well received by the German participants, and discussions continued through the year.

The Library investigated, tested and subscribed to key Chinese electronic databases: two series of the *CNKI* (China National Knowledge Infrastructure): *Chinese Academic Journals* and *Chinese Core Newspapers* for the current year. More than 5,000 Chinese academic

journals and more than 300 Chinese newspapers are included in these two series.

Under a cooperative agreement with DIRSA, a Mexican subscription agent, LC is acquiring 149 Luso-Hispanic electronic journals, which are made available to our on-campus users via the Library's Electronic Research Tools website. An additional 190 SciELO (Scientific Electronic Library Online) e-journals are now available to users via the same website.

Another significant electronic resource was acquired by gift. Almost sixty years (1946 -2003) of the newspaper *People's Daily* (China) in electronic format was donated to the Library by the eBookMatrix Publishing Corp.

*HeinOnline*, containing over 500 law journals in the Law Journal Library, the U.S. Attorney General Opinions Library, the U.S. Supreme Court Library, the Federal Register Library and the U.S. Treaties and Agreements Library was made available via the Staff web page, instead of being limited to seven machines in the Law Library Reading Room.

*Bibliographic Enrichment Activities* - The Library's inter-divisional Bibliographic Enrichment Advisory Team (BEAT) is responsible for initiating research and development projects to increase the value of cataloging products to library users. The team's best-known project is the enrichment of online catalog records by providing electronic table of contents data (TOC). In fiscal year 2004, BEAT-developed software supported the inclusion of TOC in more than 45,000 records for Electronic Cataloging in Publication titles and enabled links to and from another 8,300 catalog records to D-TOC, or digital tables of contents, which resided on a server. Links to TOC were also provided by the BEAT ONIX projects, which link LC catalog records to tables of contents, publisher descriptions, sample text, and reading group guides provided by publishers in ONIX, the standard for communicating book industry product information in electronic form; this fiscal year the BEAT team introduced links to book jacket illustrations and author information as well. At year's end, there were more than 250,000 links, including links to more than 7,500 sample texts and more than 63,000 publisher descriptions of their publications. The Library counted approximately 1.5 million visits this fiscal year to the D-TOC and ONIX records residing on its server; there have been a total of more than four million visits since the project began in 2001.

In fiscal year 2004, BEAT continued its joint venture with H-NET, *Humanities and Social Sciences Online*, by which cataloging records for selected monographs in the LC collections were linked to *H-NET Reviews*. New links were made to 1,022 items, keeping within the projected range of 1,000 links to reviews per year.

Another noteworthy BEAT project has continued this year to provide significantly improved access to pre-1970 Congressional hearings, resulting in improved service to the Congress, centralized availability of information now widely dispersed throughout the Library's collections, modernization and uniformity of catalog formats for the hearings, and addition or inclusion of other information, such as the existence and location of alternate data sources. Approximately 6,500 hearings have been identified and are being processed.

*International Digital Projects - Meeting of Frontiers*, a bi-lingual Global Gateway collaborative digital library project between the Library of Congress and the Russian State Library in Moscow, the National Library of Russia in St. Petersburg, and seven institutions in West Siberian cities—completed its seventh major expansion at the end of fiscal year 2003. There are now 5,575 items from 24 collections (14 different libraries and archives) since the first launch (Dec. 1999) and a total of 255,177 digital items that provide a gateway to the frontier experience and to much that remains important about the national identities of Russia and America in the twenty-first century.

*United States and Brazil: Expanding Frontiers, Comparing Cultures*, a bi-lingual web collection launched during the year, explores the history of Brazil, interactions between Brazil and the United States from the eighteenth century to the present, and the parallels and contrasts between Brazilian and American culture and history. The collection has approximately 7,000 items such as rare books, maps, engravings and text and was a collaboration with the National Library of Brazil.

In November 2003, the Library and the National Library of the Netherlands (KB) launched the bi-lingual collaborative project: *The Atlantic World: America and the Netherlands, 1609 to the Present*. This Web site includes more than seventy items totaling some 11,737 images from the collections of the Library, KB, and four other Dutch institutions that cooperated with the KB on this project.

In April 2004, the Library and the Bibliotheque Nationale de France concluded an agreement to develop a joint bi-lingual digital project on the theme of the French in North America, emphasizing early French explorers.

The protocol for a Global Gateway project with the National Library of Egypt was signed in Cairo, Egypt. The project's initial focus is on selected manuscripts and other rarities held by the two institutions.

**Acquiring Research Materials for the Library** - The ideal of a universal collection was aided greatly by the copyright law of 1870, which combined the registration and deposit functions in the Library of Congress and stipulated that two copies of every book, pamphlet, map, print, photograph, and piece of music published in the United States be deposited in the Library. Copyright deposits are a major source of the Library's collections of Americana. In fiscal year 2004, research materials obtained for the collections through copyright deposits totaled 1,038,561 items.

The Cataloging in Publication Program is the other principal source of U.S. published books that the Library acquires. A mainstay of U.S. library service for thirty years, the program provides cataloging data, based on pre-publication galleys, to participating publishers who include the data in their published books. As participants, these publishers are required to submit a copy of the published book to the Library. This copy is in addition to the two copies mandated under the copyright law. The Library also acquires U.S. publications through the Preassigned Card Number Program. In fiscal year 2004, the Library obtained 91,747 titles through the two programs.

The Library also acquires materials by purchase, transfer from other federal agencies, gift, domestic and international exchange, or by provisions of state and federal law. Many of these materials are foreign publications. The Library maintains six overseas offices and has arrangements with book dealers, agents, and publishers to ensure efficient and prompt acquisition of current foreign publications of research value on a world-wide basis. The following are brief descriptions of the Library's international exchange and federal transfer programs.

*Official Exchanges* - Among 5,000 exchange agreements, the Library of Congress maintains about

seventy "official" exchanges with major national and parliamentary libraries around the world. These exchanges were instituted and are overseen by the Library; however, the Government Printing Office has the responsibility to ensure that this select group of exchange partners receives U.S. government publications. Pursuant to 44 U.S.C. 1719, the Superintendent of Documents distributes U.S. government publications "to those foreign governments which agree, as indicated by the Library of Congress, to send to the United States similar publications of their governments for delivery to the Library of Congress." The Government Printing Office pays for the cost of this program from funds appropriated for the Superintendent of Documents.

*Duplicate Materials Exchange Program* - In the spring of 2002, a Business Process Improvement (BPI) project, XBPI, was initiated to examine the Library's duplicate materials exchange program. The goals of the XBPI were to maintain and improve equitable exchange with actively partnering institutions; reduce staff time needed to process materials for exchange; reduce space used to store duplicates, list materials, and pack items; reduce redundant physical handling; and implement a web-based customer interface to replace paper lists.

All steps in this process, except for the last, have been completed. Exchanges with 2,500 partners around the globe, previously handled by various sections through the Acquisitions Directorate, are now centrally serviced through the Duplicate Materials Exchange Program (DMEP). In September, the Library awarded a contract to SQN Solutions to develop the software and web site to host an online version of DMEP. The site will employ shopping cart functionality to allow the Library's exchange partners to select materials that they would like to receive in exchange for materials that they send to the Library. When implemented, the Library's operating costs for DMEP will be greatly

reduced.

In fiscal year 2004, the Library received 162,952 items through its exchange relationships.

*Federal Transfer* - Pursuant to 36 C.F.R. 701.33, federal libraries send their surplus materials to the Library for addition to its collections or to use in the exchange and surplus books programs. In fiscal year 2004, the Library received 834,750 items from federal agencies, and, although only a very small number were selected for the collections, several thousand were used in exchanges with other libraries for materials needed by the Library of Congress. Other federal transfers were used in the Library's surplus books programs. The Library has been working closely with federal agencies that are planning to transfer surplus materials. This early consultation ensures that the Library receives all materials appropriate for the permanent collections or useful in the exchange and surplus books program. Material not wanted by the Library can then be disposed of by the transferring institution.

The primary resources for recent acquisitions are as follows:

	2000	2001	2002	2003	2004
Annual Appropriations Authorized	\$10,321,000	\$10,456,000	\$15,824,474	\$10,815,240	\$11,477,879
Estimated Value of Copyright Deposits Transferred to the Library	\$32,308,047	\$ 31,857,394	\$31,302,048	\$33,749,004	\$36,456,888
Government Printing Office Appropriation (part of Superintendent of Documents)	\$687,000	\$630,000	\$718,000	\$752,000	\$751,000

Acquisitions by source:

Source	Pieces 2000	Pieces 2001	Pieces 2002	Pieces 2003	Pieces 2004
<b>Purchases:</b>					
Appropriated - GENPAC/LAW					
Appropriated Other	811,566	711,133	897,193	732,603	768,870
Gift and Trust Funds	54,024	55,564	34,397	25,146	26,365
	8,090	4,514	393	3,003	13,065
<b>Total Purchases</b>	<b>873,680</b>	<b>771,211</b>	<b>931,983</b>	<b>760,752</b>	<b>808,300</b>
<b>Non-Purchases:</b> Exchange					
Government Transfers	249,954	211,107	163,138	149,744	162,952
Gifts	124,142	126,590	140,105	110,689	86,655
Cataloging in Publication/PCN	965,364	1,760,344	864,398	1,488,847	949,918
Copyright Deposits	68,416	71,963	67,971	95,967	91,747
	751,944	728,034	896,504	869,083	1,038,561
<b>Total Non-Purchases</b>	<b>2,159,820</b>	<b>2,898,038</b>	<b>2,132,116</b>	<b>2,714,330</b>	<b>2,329,833</b>
<b>Total All Acquisitions</b>	<b>3,033,500</b>	<b>3,669,249</b>	<b>3,064,099</b>	<b>3,475,082</b>	<b>3,138,133</b>

### Preservation of Library Collections

During fiscal year 2004, the Preservation Directorate furthered the Library's goal to preserve collections in all formats for use by Congress and other customers by completing more than 10 million assessments, treatments, rehusings, and reformatting for general and special collections books, documents, audio/visual materials and artifacts belonging to the Library. Through the coordinated efforts of staff in the Directorate's four divisions and two special programs, 4,132,284 items were repaired, mass deacidified, or microfilmed at a total cost of \$18,367,801. The average cost per item was \$4.44.

In addition, the Directorate aided Library Services in achieving its five primary objectives, including facilitating the acquisition of the culturally significant, multifformat Kislak Collection by assessing the condition of 600 Mesoamerican maps, codices, ceramics, textiles, paintings, and books, advising on packing, transport, storage and exhibition.

To extend the life and utility of collections through appropriate treatment and technologies, 299,064 books and 1,219,500 sheets of paper were mass deacidified, and 289,401 general and special collection books, manuscripts, and prints received conventional or highly customized treatments; 630,269 documents, photographs, discs, film, and magnetic tape reels and cassettes were rehused for preservation and access; 4,103,419 photographs, paper and other collection material were assessed for future preservation needs; and 4,111,415 documents and newspaper pages and motion picture reels were converted to microfilm and digital format. 16,024 bound newspaper pages were stabilized by a new technique of paper strengthening. In addition, to support the access to collections electronically through the National Digital Library, 31,663 items were stabilized, and, for outreach through exhibitions, 1,372 items were treated and 562 matted for the Interpretive Program Office.

To provide environmentally stable storage for special format collections, several specially appropriated, multi-year initiatives resulted in improved storage environments extending the life of 1.3 million items stored on Capitol Hill, as part of the next to last year of an environmental control initiative; rehousing 142,758 special collection items stored on-site in the third of a five-year preventive preservation initiative; rehousing for moving to environmentally controlled cool and cold storage 502,715 audio-visual items for NAVCC in Culpeper, Virginia, and 31,753 special collection items for Ft. Meade, Maryland, completing the second of a three-year preservation preparation initiative; and completion of the third year of a multi-year research project to determine the life expectancy of CD media.

To secure collections during storage, transport, processing, use and exhibition life cycles, the Directorate updated the preservation component of the Library's collection security plan. To improve security for the top national treasures, the Directorate acquired and installed state-of-the-art gasketed stainless steel cabinets that are water-tight and can be filtered against pollution or other contaminants. The Directorate also acquired equipment to improve digital analysis and imaging of treasure collections. A multi-spectral digital camera for photography with infrared and ultra-violet light enables state-of-the-art analysis, documentation and monitoring of the condition and deterioration of the Library's top treasures and special collections at the most intimate level, capturing features invisible to the naked eye, but vital for identification, authenticity and security. Preservation also refined several emergency preparedness plans for various scenarios and collections, and the Beeper Team responded to 13 emergency incidents, salvaging 874 water and mold damaged books, drawings, and photographs, as well as applying Anoxic treatment to 55 record storage boxes infested with silverfish. In addition, specifications were developed for non-damaging bookshelf covers to protect books from slotted shelves during storage, and specially designed carts for protecting oversized or rolled items during transport, processing or use.

*New Equipment* - In addition to acquiring state-of-the-art storage and imaging equipment for the Library's top treasures, Preservation also acquired equipment to improve housing for collection items in many formats, for storage, transport, use, exhibition, and processing life-cycles. Two new automatic computer systems were purchased that measure, design and cut custom mats and boxes, thereby reducing time,

increasing accuracy, and increasing the range of techniques and materials that can be used to protect and display collections. Even the most unusual or complicated format items or associated materials can be adequately safeguarded. An automatic mat-cutter can instantly cut any combination of shapes, and a Kasemaker boxmaking system contains a library of 200-300 box styles and allows for the operator to design new boxes using plastics, cloth, paper, and solid and corrugated board.

#### *Core Preservation Program Activities*

*Conservation Division* - Conservation Division (CD) staff surveyed 4,103,419 special collection items for treatment, digitization, exhibition, and relocation to off-site storage. Staff treated 63,562 books, paper, photographic and mixed media materials, and housed 602,405 items, including audio visual materials. Major projects included restoraging of the Library's top treasures into stainless-steel gasketed cabinets, and special highlights included the conservation treatment of Anna Beek's 17<sup>th</sup>c. collection of European fortification and battle plans; two volumes of William Penn's papers; maps representing the first nationwide geographical survey of Japan, hand-drawn in the 19<sup>th</sup>C. by Inoh Tadataka over 16 years; political cartoons from the Herblock and Swan collections; and architectural drawings of the Capitol from the Eames, Walker, and Rudolph collections. Unusual rarities included an oversized NAACP political banner with damaged paint on canvas; Korean metal type with bronze disease, and James Joyce's plaster death mask, which required a custom-designed protective storage box.

Preservation staff prepared 1,377 items for exhibitions worldwide and 31,663 items for the National Digital Library, to be scanned for Internet access. In particular, the Directorate staff assessed the collection and advised on packing, transport and storage the Kislak collection of Mesoamerican codices and artifacts, which includes 600 objects such as ceramics, textiles and paintings.

In addition, the CD completed the third year of a five-year project to preserve 'at-risk' collections, conduct a pilot project into paper strengthening, develop specifications for storage furniture, and improve environmental storage conditions at the Library.

To provide protection for "at risk" collections from handling, light and dirt, over 588,000 enclosures, folders and boxes were made to house more than 7,900 books, 559,000 paper items, 20,000

photographs, and 14,000 discs, film reels, and magnetic tape cassettes and reels. Important collections completed include Theodore Roosevelt's Presidential Papers, the Margaret Mead and the Wright Brothers Collections from the Manuscripts Division; Prints and Photographs Division's Fenton Photographic Collections and the heavily-used Biographical Files; and American Folklife Center's Aaron Ziegelman Collection of pre-1930's Polish artifacts and the Asian Division's Indonesian Palm Leaf collection, which required custom-made protective boxes. The Jeffersonian-era National Intelligencer newspapers treatments were completed for binding and boxing in preparation for scanning and release on the Internet.

An environmental monitoring initiative with the Image Permanence Institute led to the installation of 95 Preservation Environmental Monitors in all of the Library's Capitol Hill buildings, to help lower temperatures to slow aging of collections, thereby expanding the life expectancy of 1.3 million items. Data from the monitors have been recorded, evaluated and used to lower the temperature and relative humidity in some locations in order to exponentially extend the life of the collections stored in those areas. Maps of the HVAC systems have been made and analyzed for future improvements.

A paper strengthening initiative completed a pilot project testing the efficacy of prolonging the useful life of newspaper through mechanical splitting and strengthening by inserting a thin new core paper, has resulted in successful treatment of 30,000 too-brittle-to-serve documents, at a quarter of the estimated cost.

A specifications initiative concluded with recommendations for solid metal shelf covers to reduce damage to books stored on older open-slotted library shelves, and modular carts to transport items to and from offsite storage areas, including an oversized cart for large flat items, and an A-frame cart for book boxes and rolled items.

Additional three-year initiatives to prepare collections for storage in environmentally controlled buildings off-site continued. One team of conservators worked with curators of Motion Picture, Broadcast, and Recorded Sound and the American Folklife Center Divisions to identify over 400 collections earmarked for transfer to the National Audio Visual Conservation Center in Culpeper. To date, preparation of over 1,157,000 selected books, manuscripts, art on paper, maps, photographs, color transparencies, microfilms, motion picture films, and magnetic media

have been prepared for moving to Ft. Meade and Culpeper. A team of conservators worked with curators to identify over 400 collections earmarked for transfer to the NAVCC. To date, 186 collections have been assessed and recommendations have been made for their stabilization and care for the move. Two contracts were awarded for move preparation. VidiPax completed work processing over 10,000 reels of film, and processing and rehousing over 600,000 paper objects from the Fox Movietone Collection in preparation for the move. Central Business Group (CBG) was retained to process and re-can approximately 40% of the 125,000 nitrate films (50,000 cans), now stored at Dayton, Ohio. CBG has processed and rehoused 34,000 cans of nitrate film to date, which represents 28% of the entire collection. Preservation specialists inventoried 52,000 items, sorted and evaluated 58,000, treated 10,000, rehoused 700,000, and labeled over 460,000. Research was done on customized housing for cylinder recordings, broken discs, and the paper print collection, as well as analysis of the composition of discs and cylinders. Proposals were made for high-risk collections, such as lacquer discs. Work continued toward developing specifications for film cans that protect contents from acid build-up and moisture penetration, and labels that can withstand cold storage.

A second team of conservators continued to prepare collections for transfer to the Library's off-site storage facility at Fort Meade, MD. Senior conservators have been working on assessments, survey, treatment, rehousing, labeling, and development of specification for new housing materials and techniques for approximately 450 special format collections of about 30 million items.

Guidelines for responding to water-related emergencies were revised and included in the Library's Comprehensive Emergency Preparedness Plan. Key areas in the Directorate received security upgrades, including the Conservation Division. The Library's Top Treasures List was also revised. To enhance emergency preparedness, collection emergency response kits were dispensed to Library divisions and staff trained in their use. A mobile flash freezer unit, for emergency response, was also installed.

*Binding and Collections Care Division* - The Binding and Collections Care Division (BCCD), with its Library Binding Section (LBS) and Collections Care Section (CCS) provided timely commercial bindery preparation, labeling, box-making, and repair of Library collections. Library Binding staff sorted

176,151 volumes into binding styles in preparation for commercial binding and sent 212,445 volumes for commercial library binding. Staff reviewed the quality of 221,130 volumes returning from the commercial binder, and 167,391 pieces were labeled. Staff also conducted serial binding preparation training sessions for Asian and African and Middle Eastern Division staff. They also trained Preservation Reformatting Division staff to input volumes for the preservation facsimile program into the Automated Library Retrieval System (ALRS). The volumes were sent to the commercial binder for preservation-quality, acid-free paper facsimile volumes and digital images to be produced to the Library's standards. The Section awarded a multi-year library binding contract.

The Collections Care Section (CCS) continued to repair items from the General and Reading Room reference collections and make boxes for collections throughout the Library. In fiscal year 2004, 2,541 volumes were repaired and 7,985 boxes were made. The Reading Room collections served included Music, Asian and Local History and Genealogy.

CCS led a project to re-house the American Title Map collection located in the Geography and Map Division. For this project, History Associates Inc. continued and completed the second year of a two-year contract to re-house 30,000 maps. Due to this project's success, a second contract for these services was developed and has been awarded, and the project will resume in the first quarter of the next fiscal year.

*Preservation Research and Testing Division* - The Digital Media Research Program continued to focus on several projects, including one to assess the usable lifetimes of optical digital media. The CD-Audio Media Natural Aging project, which is monitoring the aging properties, in terms of error levels, of digital media in permanent storage, in ambient conditions, aims to analyze 125 discs pulled from the collections every three years. Four of the 125 discs were found to have accumulated a block-error rate (BLER) in excess of an acceptable threshold of 250 over the past eight years since this project was initiated. Although all of these errors are correctable and all of the 125 discs remain playable, the observed elevation in BLER was significant enough to expand this exploratory project to a full fledged natural aging study with a sample population of just over one thousand discs, which will lead to more dependable results with a confidence limit of 95% or better.

A CD-Audio Media Accelerated Aging project relies on accelerated aging of CD-Audio media over a range

of temperature and relative humidity levels. The first phase of this study, which utilizes standard ANSI aging conditions, has just been completed and the compilation of a report on this work is in its final stage. In this phase of the study, the effect of laser-engraving of CD media around the central hub area (where no data resides) on their life, if any, was investigated, and found to be non-existent. While these data were anticipated, it was important to prove this to the satisfaction of curators to enhance confidence in the addition of a permanent property identification label by means of a laser-marking tool in order to discourage pilferage.

*Preservation Reformatting* - The Preservation Reformatting Division (PRD) and its programs successfully converted 4,110,945 units (e.g., pages, photographs, posters) of Library material through a combination of preservation microfilming (4,038,946 pages or 2,316,219 exposures), preservation facsimile (33,873 pages or 116 volumes), digitization (36,390 pages or 216 works), and other preservation photographic reproductions (1,706 images) for service to the public. The reformatted material was drawn from collections throughout the Library. Collections receiving focused efforts included Arabic language newspapers held by the African and Middle Eastern Division (AMED), severely embrittled World War One era military camp publications from the general collections (HSS), acetate and nitrate photographs from the Prints and Photograph Division (P&P), and brittle monographs identified through use (e.g. loan request, reference request, collection care request) that could not otherwise be served to readers. Preservation Reformatting Division (PRD) staff continued working with the Photoduplication Service (PDS) to process materials for microfilming, collating over 362,598 pages of foreign language material. Most of PRD's collation activity was directed toward newspapers in the custody of the African and Middle Eastern Division and the Serial and Government Publications Division.

The preservation facsimile program replaced 116 embrittled volumes identified through use from the general collections and reading room reference collections. The replacement volumes were preservation-quality, acid-free paper facsimile volumes bound to the Library's standards. Building on fiscal year 2003 experience with digital files produced through the facsimile duplication process, a pilot hybrid analog/digital effort was undertaken to evaluate potential work processes and vendor performance. PRD staff developed an MS ACCESS database to track all activities associated with the

selection, preparation (collation), shipping, quality review, invoicing and disposition of facsimile copies and digital files received during the pilot. While significant quality issues with digital files returned by the vendor prevented a larger than intended number of volumes from being treated during the pilot, the overall number of volumes addressed during the pilot represents a fifty percent increase over fiscal year 2003 levels.

PRD maintained the quality of reformatted products through an intense quality assurance program that involved both regular staff and an independent third-party inspection service provider. Approximately 2,613 micrographic units (e.g. microfilm reels, microfiche) received complete bibliographic inspection while all other units received a more basic level of review. Regular quality assurance feedback was provided to all reformatting vendors in order to correct any identified deficiencies and to ensure compliance with contract requirements. PRD staff inspected every facsimile volume and all digital files produced through the hybrid brittle book pilot.

Two new reformatting projects were undertaken with the Prints and Photographs Division to address deteriorating photographic materials. High priority deteriorating acetate base negatives were identified for cleaning, stabilization, and reformatting treatment through a contract with Chicago Albumen Works. Under this contract the vendor chemically released the emulsion from the acetate base, cleaned the emulsion layer (the image pellicle), flattened the image for standard duplication, and dried the pellicle for return to the collection. An interpositive, duplicate negative, and digital image of each treated item was received. High priority nitrate negatives stored at Wright Patterson Air Force Base were identified for digitization under a contract awarded to TransImage. High resolution digital images were produced of nitrate negatives identified through customer requests received by the Photoduplication Service and from items identified for exhibition, publication and Web sites.

An effort begun in fiscal year 2003 by PRD to better preserve important characteristics of large format color materials acquired by the Library's Rio de Janeiro overseas office was continued through the digitization of posters and microfilming of text documents comprising the twelfth supplement of the Brazil's Popular Groups. This unique collection of newsletters, house reports, brochures and educational materials from all regions of Brazil documents the ideas and activities of organizations and popular

movements not available from traditional publications.

*Mass Deacidification Program* - Since the 1970's, the Library has provided international leadership in solving the worldwide problem of deteriorating, acidic paper. With a successful mass deacidification program in place since 1996, the Library has to date extended the useful life of more than 1,000,000 bound volumes and more than 2,000,000 sheets of manuscript materials from the collections through utilization of an advanced preservation technology that neutralizes the acid in paper. During fiscal year 2004, the Library ramped up treatment to a minimum of 250,000 monograph books, achieving the fourth year goal of a multi-year contract that may enable the Library to deacidify 1,000,000 books in five years. Achieving another important objective of its Thirty Year (One Generation) Mass Deacidification Plan, the Library was able to make full use for the second year of a new single-sheet treatment cylinder that was installed onsite in the Madison building in August 2002. This Bookkeeper single-sheet treater and an associated spray booth meet all of the Library's published technical, environmental, and safety requirements for mass deacidification. The non-book treatment system is operated and maintained by the contractor, enabling the Library to obtain onsite deacidification services to ensure the longevity of unbound collections materials that are too invaluable to be transported to the vendor plant near Pittsburgh where the Library's books continue to be deacidified. The single-sheet treater enabled the Library to deacidify in the past year 1,219,500 pages of non-book, paper-based materials. The 299,064 bound volumes deacidified last year included 256,986 monograph books (retrospective collections as well as newly-acquired books in various classes that are printed on acidic paper) and 42,078 volumes from the Library's extensive collection of American comic books.

*United States Newspaper Program (USNP)* - During the past twenty-one years, access to newspapers has been greatly enhanced through the USNP's effort to catalog over 168,000 titles and to preserve on microfilm an estimated 67.5 million newspaper pages. The Library of Congress continued to provide technical support to grant recipients under an interagency agreement with the National Endowment for the Humanities (NEH). NEH announced U.S. Newspaper Program grant awards of \$1.8 million in fiscal year 2004 to fund continuing projects in four states: Illinois (Chicago Area), Michigan, New York and Pennsylvania. Active projects continue in California, Illinois, Tennessee and Virginia. To date,

NEH has provided \$51 million in support of USNP projects.

The Library and NEH signed a memorandum of understanding and interagency agreement to develop a "National Digital Newspaper Program" to further enhance access to newspapers (1690-present) identified through the efforts of the USNP and preserved on microfilm. A team of NEH and Library staff developed program guidelines and technical specification for the selection and digitization of over one million pages from newspapers published in the United States during the period 1900-1910. Following the USNP model, NEH expects to award ten cooperative agreements in fiscal year 2005 to state level institutions to convert to digital form select newspapers from the 1900-1910 period and to deposit those files with the Library of Congress. The Library will be responsible for developing a repository to

aggregate, store and serve the deposited content freely on the Internet. Fifteen project proposals were received by NEH at the close of the fiscal year. This program is intended to assist in developing standards for page-level access to historic newspapers converted from preservation microfilm and as a model for cooperative digital content development.

*Law Library* - Conservators completed a condition survey of the Russian Imperial Collection held by the Law Library. Each book will be housed in a preservation box, and all volumes in need of repair will receive appropriate comprehensive conservation treatment.

Preservation statistics for fiscal year 2004 are as follows:

<b>Treatment:</b>	
Volumes treated	3,186
Unbound items treated, paper-based	80,373
Photographs (examined, treated, housed)	22,218
Commercial library binding, volumes	212,445
Mass Deacidification, volumes	299,064
Mass Deacidification, paper sheets	1,219,500
<b>Housing/Rehousing:</b>	
Protective boxes constructed	8,772
Items rehoused, paper-based	788,835
<b>Copying/Reformatting:</b>	
Preservation photocopying, volumes/pages	116 volumes = 33,873 pages
Paper-based materials converted to microfilm, exposures	2,316,219
Paper-based materials converted to digital image, works/pages	216 works = 36,390 pages

### Service

The Library of Congress is a public institution open to everyone over high school age, with limited exceptions. Its collections are available to users in 21 public reading rooms located in three Library buildings on Capitol Hill. The Library's first service priority is to the Congress; second, to other branches of the Federal government; and third, to scholars, other libraries and the general public. The Library of Congress is not a lending library; only members of Congress and other statutory borrowers

are authorized to remove materials from the Library. For selected other users, primarily other libraries, the

Library does make certain materials available for borrowing through interlibrary loan.

To use Library collections, researchers identify the items they want through on-line and card catalogs, finding aids, and bibliographies. To request items, readers first must register, provide photo-identification, and receive a reader registration card. They then may submit call slips to the staff in the reading rooms, who retrieve the items from the secured collections storage areas and deliver them to

the reader. In fiscal year 2004, the Library issued reader registration cards to 36,240 on-site readers. The Collections Access, Loan and Management Division (CALM) is responsible for retrieving, packaging, and preparing loan charge records for materials that circulate outside the Library. In fiscal year 2004, a total of 108,545 items were circulated externally to authorized borrowers.

### Collections Security

Building on the fiscal year 1999 implementation of the Library's Integrated Library System (LC ILS) that provides the platform for enhancements in collections security efforts, several procedural changes were initiated. All non-rare monographs are now barcoded and linked to a specific holdings record at the first stage of the acquisitions process. Both the barcoding and the creation of a holdings record is an enhancement provided by the LC ILS. The system allows item-level tracking of collection items and facilitates collection inventory.

In fiscal year 2004, CALM adopted a procedure, recommended by the Library's auditors, for transferring new acquisitions to the general collections. Accordingly, CALM, as the receiving unit for general collections, now changes the LC ILS item status from "In Process" to "Not Charged" when actual custody of the item occurs. In the past, this online change of status took place before CALM actually took custody of the materials.

*Baseline Inventory Program* - This Program continued to inventory the Library's collections, concentrating its efforts on those items being transferred to the Library's off-site storage facility at Ft. Meade. A total of 695,357 items from the general collections and the Asian Division were inventoried, the majority of which were subsequently transferred to Ft. Meade. Approximately 12.8 per cent of the inventoried items required some degree of problem resolution and database correction by the contractor and Library staff.

An additional 1,416 volumes that had been inventoried by Law Library staff were reviewed by Program staff in fiscal year 2004, before those items were transferred to offsite storage at Fort Meade. The

Law Library inventoried an additional 103,012 items, which remained on Capitol Hill.

*Serials Inventory Control* - The serials holdings conversion project, managed by the Serial Record Division, was completed in October 2003. During the last year of the project, over 2,500 problem entries were resolved by the technicians on the support team. These entries were sorted out from the conversion contract due to their complexities. Special problems typically involved consultation with other areas of the Library. They fell into seven different categories, each of which had special holdings conversion procedures.

For the 8,335 newly prepared volumes for binding collated by the Law Library, bar codes were placed on the back of the last piece and item records created for the new volume in the ILS. The status of the item record stated "At Bindery." After the volume was bound, a duplicate bar code was placed on the end cover by the binder. The Binding and Collections Care Division changed the item record status to "Not Charged" when the volumes were returned to the Library.

*Other Activities* - Throughout the year, the Library continued to implement the security plan adopted in 1997. Specific action taken includes:

Book theft detection targets were installed in 315,708 volumes included in the incoming materials in the Copyright Office. In addition, targets were installed in 221,130 volumes that were bound by the Library's commercial bindery. Also, staff of the Serial and Government Publications Division applied 1,633 theft detection tags to high-risk materials served in the Newspaper and Current Periodical Reading Room. The Law Library installed 6,068 book theft detection targets in volumes received directly in the Law Library. The installation of theft detection targets is an example of an asset control applied at the item level.

Bar codes were installed and item level records needed to track materials during the process stream were created for all new non-rare monographs received in the Acquisitions directorate.

The Protective Services Division, of the Office of Security and Emergency Preparedness (OSEP), continued supporting the Library's multifaceted

security program by enhancing controls protecting the Library's priceless collections, facilities, staff, and patrons. With regard to collections security, Protective Services continued leading a collaborative effort throughout the Library to sustain implementation of the 1997 Library of Congress Security Plan in coordination with the Collections Security Oversight Committee (CSOC), whose members include representatives from the service units as well as key infrastructure offices. The division also facilitated preparation of the Library's draft 2004 Strategic Collections Security Plan. In support of this, the newly-formed Inventory Management Oversight Group (IMOG), co-chaired by two Library Services Chiefs, worked throughout the year to draft and complete the inventory management component of the Security Plan.

An off-site storage location, with the appropriate level of security, for the Library's treasures has been identified, and transportation plans have been developed in the event that the items must be moved to that location.

Monitoring the effectiveness of staff security practices and enhancing staff security awareness were significant ongoing initiatives led by Protective Services in collaboration with the CSOC throughout fiscal year 2004. Protective Services and the CSOC have now completed a two-year cycle of Site Assistance Visits (SAVs) to ninety divisions. Two-person teams conduct the SAVs with two weeks' notice; on each SAV, a physical security expert is joined by a librarian. SAV findings are reported to the OSEP director and to the chief of the division inspected. The OSEP has found that the SAVs over time significantly enhance security practices of the Library's staff members. Areas that continued to improve over the past twelve months include the proper display of Library staff identification badges; timely charging of books; and enhanced control over keys and generic electronic access cards. Moreover, division chiefs were frequently requesting tailored briefings and follow-up assistance visits from Protective Services.

The security Web sites designed by Protective Services and the CSOC for patrons and staff continued to enhance security awareness. In fiscal year 2004, the patron Web site averaged about 9,800 hits monthly. Patron complaints over the pervasive

nature of security controls in place have continued declining as an increasing number of new visitors and researchers come better prepared to use the Library's resources. The staff Web site averaged 680 hits monthly. As of the end of fiscal year 2004, the total number of hits for the patron Web site since inception (November 5, 2001) was more than 350,800 hits. The staff Web site since inception (July 22, 2002) has totaled more than 13,600 hits.

### **Cataloging & Arrearage Reduction**

In fiscal year 2004, the Bibliographic Access Divisions of the Library of Congress pursued their mission to provide effective access to information resources and leadership to the library and information communities in a rapidly changing information environment. The Bibliographic Access Divisions revised their multiyear strategic plan; produced high-quality, timely cataloging for nearly 295,000 bibliographic volumes; collaborated with other directorates and service units in reducing the arrearage; enriched the Library of Congress Online Catalog with links to tables of contents and other data; promoted cooperative cataloging programs; and developed and promulgated cataloging policy and standards. Staff improved and expanded the bibliographic control of digital content and continued development of the New Books program to provide enhanced prepublication information to LC catalog users.

The Bibliographic Access Divisions issued a revised strategic plan covering fiscal years 2005 and 2006, based on the first strategic plan issued by the former Cataloging Directorate in fiscal year 2003. The new plan featured five strategic goals:

- I. Make it easy and fast for end users to find, identify, select, obtain, and use a complete range of information and creative resources.
- II. Lead and collaborate globally in the development, promotion, and dissemination of policy, practice, standards, and programs for bibliographic description, access and inventory control.
- III. Leverage opportunities presented by the service unit realignment to realize efficiencies that will optimize service to users.

IV. Reduce overall costs to meet appropriations targets and to free resources for exploring and implementing innovations in the Bibliographic Access Divisions.

V. Prepare managers, team leaders, and team members for successful performance in the hybrid analog and digital environment.

*Production and Arrearage Reduction* - The Bibliographic Access Divisions and Serial Record Division cataloged a total of 294,510 bibliographic volumes in fiscal year 2004. Production of full or core original cataloging, the category of most interest to other libraries, totaled 185,309 bibliographic records. The directorate cleared 2,597 print items on 110 new collection-level cataloging (CLC) records and created an additional 4,283 CLC records from surrogates for archival manuscript collections submitted to the National Union Catalog of Manuscript Collections Team (NUCMC), Special Materials Cataloging Division (SMCD). In addition, Bibliographic Access staff created inventory-level records for 24,392 items.

Production of authority work increased in most categories this year. The Bibliographic Access Divisions, with the Serial Record Division and the field offices administered in the African/Asian and Overseas Operations Division, created 92,311 new name authority records, an increase of nearly nine percent from 84,822 the previous year, and 8,770 new series authority records, slightly more than the 8,762 new series authorities created last year. Changes to name and series authority records totaled 72,494, which represented an increase of 6.08 percent compared to the 68,336 changes made by catalogers in fiscal year 2003. Total new subject headings including those produced by catalogers and by the Subject Heading Editorial Team, Cataloging Policy and Support Office (CPSO), numbered 6,393 (a decrease of 11.72 percent from fiscal year 2003), bringing the size of the subject headings database to 283,500 records. Total changes to subject headings numbered 6,313, less than half the number in fiscal year 2003, because the project to update all subject headings that contained romanized Chinese characters was successfully completed. Catalogers proposed 1,595 new numbers in the Library of Congress Classification, an increase of 13.68 percent from the

previous year, and changes to 277 Classification number, an increase of nearly 67 percent.

Following the completion in fiscal year 2003 of the Library of Congress Classification schedules originally envisioned for legal materials, new initiatives emerged for additional schedules in fiscal year 2004: in particular, research began for a schedule for law of the indigenous peoples of North America, and planning got underway to align the schedule for Islam (BP) with Islamic law (KBP) in the manner of Judaism (BM) with Jewish law (KBM).

This year, the Cataloging Policy and Support Office began a one-year pilot project for a Database Improvement Unit (DBIU) to develop, analyze, and document maintenance procedures for the online catalog. The unit corrects authority, bibliographic, holdings, and item records, and develops efficient procedures for the maintenance of the bibliographic and authority databases. Using a combination of automated and manual techniques, the DBIU updated more than 100,000 records since its establishment on June 28.

The Bibliographic Access Divisions and Serial Record Division received 360,184 items in fiscal year 2004 (compared to 364,886 received in fiscal year 2003, a decrease of 1.2 percent) and completed 378,381 (compared to 374,079 items completed in fiscal year 2003, an increase of 1.1 percent). They also cleared 47,226 arrearage items for other Library units. Staff processed 1,600 discs from the AFRTS (Armed Forces Radio and Television Service) broadcasts this year, bringing total processing in this project to 120,459 items cleared. Only 1,500 discs and a small number of cassettes remained to be processed in this important collection of recorded live performances. The Dayton C. Miller Flute Collection, which includes approximately 1,700 woodwind instruments as well as thousands of books, prints and photographs, printed music, patents, trade catalogs, autographs, and correspondence from wind instrument manufacturers, was cataloged using collection-level cataloging. The Library of Congress Moldenhauer Archives of 3,600 items related to Western music history and the 15,000-item Charles Mingus Collection also received collection-level cataloging. A total of 45,397 compact discs were processed during the year.

*Arrearage Reduction in the Public Service Collections Directorate* - At the close of fiscal year 2004, the arrearage in special formats, which, except for rare books, are processed in the Public Service Collections Directorate, was 19,034,859 items, representing a total reduction of 46.6 percent since the Library's original arrearage census of September 1989. The Bibliographic Access Divisions had reduced the rare book arrearage by 73.6 percent, to 87,637 items. The arrearage of pictorial materials had decreased by 76.8 percent. More than 58 percent of the arrearage of sound recordings had been eliminated, as well as 46.8 percent of the arrearage of printed music and more than sixty percent of the moving-image arrearage. The arrearage of manuscripts stood at 11,631,041 items, technically a reduction of only fifteen percent since 1989 but actually reflecting the Library's success in acquiring huge and valuable new collections of manuscripts which were processed in the intervening years. By the same token, the number of maps in arrearage was 54,542 at the end of fiscal year 2004, an apparent decrease of only 14.8 percent since the 1989 arrearage census, but this reflected the acquisition of 61,346 maps for the Library's collections in this fiscal year.

Cataloging was completed for the following rare book collections: the World War II Underground Movement Serials and Miscellaneous Pamphlets (a roughly 1500-item collection), the McGuffey Readers (American primers for children; a 34-item collection), and Big Little Books (467 items of American juvenile literature). Cataloging was also completed for the Pforzheimer Bruce Rogers book collection of 2,415 titles.

This year, the American Folklife Center created records in the LC online catalog for all 49 of the Center's digital finding aids, enabling catalog searchers to access these critical research tools. The Save Our Sounds Project entered its fourth year and considerable progress was made on processing the following AFC collections: American Dialect Society Collection, James Madison Carpenter Collection, Coal River Folklife Project, Sidney Robertson Cowell WPA (Work Projects Administration/Works Progress Administration) California Folk Music Project Collection, Eleanor Dickinson Collection, Robin M. Hiteshew/Irish-American Print Materials Collection, International Storytelling Foundation Collection, materials from the Irish Folklore Commission, George

Korson Collection, Lands' End All-American Quilt Collection, Eloise Hubbard Linscott Collection (of 1940s and 1950s materials), and the Literatura de Cordel/Brazilian Chapbook Collection. For the Local Legacies collections that came to the Library as part of its bicentennial celebration in 2000, the original 138 linear feet of materials, not including oversized materials or artifacts, was consolidated into 43 linear feet by grouping like formats (manuscripts, sound recordings, visual images) after each item was assigned a number. Selected items were digitized so they could be added to the "Community" portion of the *Courage, Patriotism, Community* online presentation on the LC Website.

The Geography and Map Division created a total of 8,050 full or core-level map catalog records, the most complete modes of cataloging in use for nonrare materials. Some 42,320 map sheets were placed under bibliographic control.

The Manuscript Division processed 964,045 items from the arrearage, a 33 percent increase from that cleared in fiscal year 2003—constituting 16 new collections and 13 additions to collections in the Division's holdings. Twelve new finding aids were created and 73 finding aids were mounted online using the Encoded Archival Description encoding standard. Notable collections processed included the papers of Zbigniew Brzezinski, Anthony Lake, Patsy Mink, Daniel Patrick Moynihan, and Donald Rumsfeld.

The Motion Picture, Broadcasting and Recorded Sound Division (MBRS), which provides access and information services for the motion picture and television collections as well as the Library's audio collections, cataloged significant portions of the following audio collections: World War II Office of War Information Pacific theater broadcasts, primarily in Chinese; classic radio programs broadcast by WOR, New York City; 12-inch non-commercial pressings; 16-inch electrical transcriptions; miscellaneous syndicated radio programs; hundreds of vinyl copies of Columbia 78rpm discs; recordings from the Marlboro Chamber Music Festival; recordings of Leopold Stokowski conducting the NBC Symphony; Columbia Pictures soundtrack music on lacquer discs (preservation and cataloging); the George Garabedian Collection of lacquer discs of golden age radio broadcasts; the Jerry Valburn

Collection of unissued “live” Duke Ellington recordings; National Public Radio–miscellaneous public radio arts programs of the 1970s; completion of Newport Jazz Festival from Voice of America tapes; Greenough Collection–unpublished classical performances recorded in Boston; classical music recorded by Voice of America on lacquer discs; and miscellaneous NBC Symphony broadcast recordings.

The Music Division made significant progress on special collections processing. The division completed processing the remaining 116,538 arrearage items from the Isaac Berlin Collection and processed 112,313 items from the Theodore Presser Collection backlog. The total number of arrearage items cleared was 301,142. With funding to store collections at the Iron Mountain Company’s Boyers, Pennsylvania, facility to alleviate critical space

problems, the division identified, re-housed, and prepared for transport more than thirty different collections. The total number of boxes transferred to Iron Mountain was 3,279. Construction began on the division’s processing area vault, which was mandated in the division’s initial Risk Assessment several years ago.

In fiscal year 2004, the pictorial materials arrearage was reduced by 1,095,261 items. The Prints and Photographs Division also transformed another 13,000 local card catalog entries into online records and added 30,000 scans to the online catalog and thousands of newly-digitized photographs from the Matthew Brady-Levin Handy Studio, George Grantham Bain News Service, and *US News & World Report* archives.

Fiscal Year 2003 and 2004 arrearage statistics:

<b>Items in Arrearage</b>	<b>2003</b>	<b>2004</b>	<b>Change</b>	<b>Percent Change</b>
<b>Print Materials</b>	276,688	278,156	1,468	0.5
<b>Special Materials</b>	20,145,966	19,034,859	- 1,111,107	- 5.5
<b>Total</b>	20,422,654	19,313,015	- 1,109,639	- 5.4

### **Offsite Storage Facilities**

*Fort Meade* - During the year, 567,990 items were transferred to the Library’s off-site storage facility at Ft. Meade, Maryland, bringing the total number of items transferred to Module 1 since the program’s inception to 1,221,773. Requests for materials in Module 1 continue to increase. A total of 8,888 requests for items from Ft. Meade were received and filled, with a 100 percent success rate. Module 1 is approximately ninety percent full. Module 2 construction began in December 2003. Completion and commission of that Module is expected during spring 2005.

To accommodate new acquisitions throughout collections storage areas and to alleviate extreme crowding in the Adams and Jefferson Buildings, the Library embarked on a program to identify monographs for which multiple copies are held. In

such cases, one copy is retained on Capitol Hill, while additional copies are transferred to Ft. Meade. A total of 142,157 additional copies, with a copyright date of 2000 or earlier, was removed from shelves, inventoried to ensure accuracy of online records, and transferred to Ft. Meade.

*National Audio-Visual Conservation Center* - The National Audio-Visual Conservation Center (NAVCC) Transition Program Office was established in January for the purpose of relocating current MBRS operations, systems, staff, and collections to Culpeper, Virginia. Significant progress was made in preparing MBRS collections for 2006 relocation to the NAVCC facility in Culpeper. This work to re-house, conserve, and inventory numerous film, video, and recorded sound collections was undertaken by thirteen new temporary staff.

## **Financial Reporting**

The Library's collections are classified as stewardship property and are defined as "heritage assets" for financial reporting purposes. The Federal Accounting Standards Advisory Board (FASAB) standard on stewardship reporting requires that heritage assets be reported as required supplementary stewardship information accompanying the financial statements of the federal government and the component units of the federal government responsible for such assets.

The FASAB standard states that the costs of the stewardship-type resources shall be treated as expenses in the financial statements in the year the costs are incurred. However, the costs and resultant resources are intended to provide long-term benefits to the public and should be included in stewardship

reporting to highlight to the reader their long-term benefit nature and to demonstrate accountability over them. The standard states that "heritage assets" shall be quantified in terms of physical units (for which the Library reports on the number of items in the collection or the number of collections) and shall have the condition of the "heritage assets" described (for which the Library uses exception reporting by describing the preservation steps being taken for the items that are not considered in acceptable condition). No heritage asset amounts are shown on the Library's balance sheet.

The quantities of items in the Library's collections shown in the table that follows were taken from Library statistics collected on a regular basis and records that were accumulated over the years.

**Estimated Quantity of Each Category of Collection Materials at September 30, 2004:**

<b>Category of Collection</b>	<b>Beginning of Year Balance</b>	<b>Added During Year</b>	<b>Withdrawn During Year</b>	<b>End-of Year Total</b>	<b>Method of Acquisition and Withdrawal</b>
Print Collections - Classified Books	19,367,655	365,683	3,640	19,729,698	Acquisitions: Copyright deposits, purchase, gifts, exchanges, cataloging-in-publication Withdrawals: exchange & gift of unwanted or duplicate copies; depreciation or depletion through use; disposals through GSA
Other Print Materials - includes books in large type, newspapers, pamphlets, technical reports, incunabula, serials, etc.	9,741,826	101,156	21,766	9,821,216	
<b>Total Print Collections</b>	29,109,481	466,839	25,406	29,550,914	
Other Collections - includes audio materials, talking books, books in raised characters, manuscripts, maps, microforms, music, visual materials (moving images, posters, photographs, photocopies, prints & drawings, etc.), and machine readable materials	98,611,399	2,090,147	54,032	100,647,514	Acquisitions: Copyright deposits, purchase; exchange and gift Withdrawals: exchange & gift; depreciation or depletion through use; or disposals through GSA.
<b>Total Collections</b>	127,720,880	2,556,986	79,438	130,198,428	

# THE LIBRARY OF CONGRESS

## MANAGEMENT REPORT

**THE LIBRARY OF CONGRESS  
MANAGEMENT ASSERTION ON CONTROLS  
FOR THE COLLECTIONS**

**Fiscal Year Ended September 30, 2004**

The purpose of this section is to assert management's opinion about the effectiveness of the Library of Congress' internal control structure for the collections.

**Preamble - The Mission of the Library of Congress**

A major mission of the Library of Congress is to acquire, preserve, and make maximally accessible the intellectual and information heritage of the United States and, to the degree desirable, the world. The Library serves, in priority order: the Congress; other branches of the government; other libraries and archives; researchers; and the general public. It is custodian of more than 130 million items, in over 470 languages and in the following formats: monographs and serials; manuscripts; prints, posters, and photographs; maps, atlases and globes; music manuscripts and scores; motion pictures, broadcasting and recorded sound; rare books; microforms; machine readable formats; and digital files. It makes these materials available to the Congress and other government entities through loans; to the research public in its reading rooms on Capitol Hill and through interlibrary loan; and to the general public through the National Digital Library and such outreach programs as exhibitions and performances, publications, videos, CDs, and tapes.

The Library of Congress, as the national library, has a special obligation to acquire comprehensively the creative and intellectual legacy of this country; to secure and preserve those items for present and future generations; and to make these items available as soon as possible and prudent to its constituents, primarily the Congress, other branches of government, and the research community. Achieving and maintaining the proper balance among preservation, security, and access is a dynamic and challenging process, faced by all libraries and archives. The process is influenced by the changing demands of the users, the development of technological and other means for accessing, preserving, and securing collections, and the judgment of management about the equilibrium itself. Maintaining an equilibrium in the midst of change is in turn influenced by the financial and personnel

resources the Library has, through appropriations and other sources, to invest in acquiring, preserving, securing, and serving the Heritage Assets which comprise not only the Library's holdings, but in fact the official record of the history and creativity of the American people throughout its history.

The risks to the national collections are: not acquiring and organizing materials that are critical to the continued development of the research collections that meet the needs of the Congress and the research community; not preserving the collections from the physical degradation inherent in each of the various media the Library holds and from deterioration through use; and the theft, mutilation, or accidental loss of the items in the collection.

In the course of its two hundred-year history, the Library has provided outstanding service to the Congress and has over time added service to other constituencies - the Executive and Judicial Branches, the library and academic communities of America, and the general public - while continuing to make service to the Congress its first priority. With time, the risks to the collections have increased. For example, the introduction of highly acidic wood pulp paper in the mid-nineteenth century and a variety of unstable media in the twentieth (nitrate film stock, wax cylinders, audio tape, etc.) have presented the Library with a number of preservation challenges. In addition, as the Library has striven to serve a wider audience and as the collections have grown, the risk of theft, mutilation, and accidental damage through handling has become more serious. Though this problem has always been widely recognized and conscientiously addressed in relation to the special format materials such as manuscripts and rare books, it was only in the 1990s that the Library took serious recognition of the extent to which the same problem afflicted the general collections (i.e., books and serials published after 1800).

The most recent problem identified is the need to preserve those library materials "born digital." To that end, the Library received from the Congress the mandate to develop a National Digital Information Infrastructure and Preservation Program.

And while the Library has, within the past one hundred years, built three special library buildings on Capitol Hill for storage and service of the collections and acquired space for special storage in Ohio, Pennsylvania, Virginia and Maryland, the physical plant has not kept pace with the growth of the collections and their demand for a controlled environment to slow inherent physical degradation. In order to ensure continued excellent service to the Congress and to document the history and creativity of the American people, the Library has been zealous in fulfilling its obligation to sustain a comprehensive collection base, even, at times, when that accumulation of items for the collections might outstrip the Library's ability to preserve, secure, and gain bibliographical control of the collection in as timely fashion as the Library would have liked. While this has been a conscious decision on the part of management - without acquiring appropriate collections as they become available, the Library has no chance of fulfilling its most fundamental mission to Congress and the nation - the result has led to a cataloging backlog, inadequate storage, and insufficient security in some areas.

The Library of Congress recognizes these problems and has taken substantial steps to address them. It established the Preservation Directorate in 1967. It began an aggressive assault on the uncataloged backlog in 1991 when it launched its Arrearage Reduction effort. And in 1992, it took the unprecedented step of closing its book stacks to the general public altogether and to its own staff for all purposes not directly related to their duties; and began the systematic upgrading of security in all its reading rooms and installation of perimeter security of the collections.

For almost a decade, the Library sought additional space and resources for secondary storage and film and audio preservation facilities. In December 1997, the Congress authorized the acquisition of space in Culpeper, Virginia, owned by the Federal Reserve Bank of Richmond to be used as the National Audio-Visual Conservation Center. In August 2003, the

Library, the Packard Humanities Institute (PHI), and the Architect of the Capitol completed a three-way Implementation Agreement governing the project. This agreement covers the construction of the NAVCC by PHI and its transfer to the government when construction is completed. Construction work began immediately. The Collections building and Central Plant will be completed in May 2005 at which time the Motion Picture, Broadcasting, and Recorded Sound Division (MBRS) will be able to relocate its recorded sound, videotape and safety film collections to Culpeper. Phase 2 is scheduled for completion in April 2006, at which time MBRS staff and the nitrate film holdings will be relocated from Washington and Dayton to the new facility.

Years of planning for off-site storage of other collections at Fort Meade, Maryland, came to fruition when the facility opened November 18, 2002. The facility represented the start of the Library's program to utilize custom-built offsite facilities both to relieve overcrowding on Capitol Hill, and to ensure an excellent preservation environment. During the past fiscal year, 567,990 items were transferred to that facility, bringing the total number of items transferred to Module 1 since the program's inception to 1,221,773. The Module is approximately 90 percent full. Module 2 construction began in December 2003. Completion and commission of that Module is expected during spring 2005.

As part of the security supplemental appropriated in the wake of the September 11, 2001 tragedy, the Library is authorized to work with the Architect of the Capitol on the design of, and site selection for, a high security off Capitol Hill storage facility for its highly valued collections. During fiscal year 2004, such an off-site storage location, with the appropriate level of security, for the Library's treasures was identified, and transportation plans have been developed in the event that the items must be moved to that location.

## MANAGEMENT ASSERTION

We confirm, to the best of our knowledge and belief, the following:

1) We are responsible for establishing and maintaining the internal control structure for the collections;

2) We have assessed the effectiveness of the Library of Congress' internal control structure over safeguarding of assets (collections) against unauthorized acquisition, use, or disposition, compliance with laws and regulations, and financial reporting based upon established control criteria. Those control criteria include: bibliographical controls, inventory controls, preservation controls, and physical security controls. Specific controls over items depend upon the individual format, demand for and conditions of use, and the value and risk assessment for that item.

**Bibliographical controls** include but are not limited to: cataloging, archival processing, and arrearage reduction.

**Inventory controls** include but are not limited to: item-level holdings records and bar-coding for non-rare monographs accessioned October 1999 or later; the automated circulation control system as implemented in the Integrated Library System (LC ILS); manual and automated shelflist and serial records; finding aids and other detailed item and/or collections descriptions; and registry of items lent for exhibition.

**Preservation controls** include but are not limited to: use of surrogates (digital, microform, service copies of audiovisual materials); collections care programs; disaster preparedness; Top Treasures security; deacidification; conservation of individual items; preservation treatment of processed items; preservation research and testing programs to define actions for deacidification, storage, audio preservation; studies of longevity of new digital media, work on national standards, etc.; and special Congressionally-mandated preservation programs such as the National Film and Sound Preservation Boards, American Television and Radio Archive, and the National Recording Preservation Board.

**Physical security controls** include but are not limited to: perimeter security (e.g., theft detection devices); secured receiving and holding areas for materials not yet accessioned into the research collections, including the Copyright Office; secured in-process working and holding areas; storage areas closed to the public and all staff except those who require daily access in order to perform their jobs;

reader registration; security in reading rooms (cameras, police and guard patrols, etc.); caging of high-risk collections; secured loan stations, and secured transit for high risk items.

3) Providing access to our collections inevitably puts them at risk and could impair the Library's ability to serve the Congress and other users in the future. However, the collections exist to be used, and management accepts the responsibility of mitigating risk to the collections at the same time it fulfills its mission of service to the Congress and the nation. While we have aggressively addressed deficiencies in bibliographic, inventory, preservation, and security controls in the past fiscal year, our assessment of internal controls identified the following material weaknesses, which could adversely affect the Library's ability to meet its internal control objectives, and, as a result, we cannot provide reasonable assurance that the internal control structure over safeguarding the Heritage Assets against unauthorized acquisition, use, or disposition, was completely effective as of September 30, 2004, for all of the Library's collections. With the implementation of the LC ILS and the application of bar codes to all newly accessioned non-rare monographs beginning October 1999, the Library has taken a step toward partitioning its assertion. We cannot assert without qualification that the controls in place are adequate and appropriate to mitigate the risks for all the special collections. We can assert that bibliographic, preservation and physical security controls are applied to all items newly acquired for the collections, but we cannot assert that inventory controls are fully implemented during the in-processing and in-storage life cycles.

The Library continued its multi-year effort to conduct an inventory of the general collections. That project, the process of comparing the book stock on the shelves to inventory records, and the conversion of the record to digital format, will establish a benchmark from which future security assessments can be measured.

**Bibliographical controls:** As of September 30, 2004, the Library had reduced the arrearage count to 19,313,015 items, a one-year reduction of 1,109,639 items. The 1989 benchmark number is 39.7 million items. During the year, newly acquired items were accessioned and cataloged using the LC ILS, while work on the arrearage continued.

**Inventory controls:** Contractors supervised by Library staff continue work on the inventory of books and serials in the general collections. Holdings information is added to the record as the inventory is conducted. Bar-coding of new receipts continued as one of the first processing steps, providing better security to the collections, and the capacity to do item-level tracking throughout the processing work flow.

**Preservation controls:** The Library has inadequate temperature and humidity control in some collections storage areas; inadequate space for appropriate storage of collections materials; insufficient space for reformatting the acetate negative collection; and insufficient funds for reformatting. These conditions cannot be fully addressed with current funds and physical plant. The move of collections into the storage facility at Fort Meade, Maryland, is expected to remedy many of these difficulties for books and paper-based materials, and the acquisition of the National Audio-Visual Conservation Center in Culpeper, Virginia, is a major step in the preservation of film and other media.

**Physical security controls:** In fiscal year 2004, the Library sustained its advances in collections security by continuing to implement actions outlined in the 1997 security plan, reader registration, contracting for additional security monitors in reading rooms, and continuing the marking and tagging of library materials in the retrospective collections. The Library has also integrated its preservation, bibliographic, and inventory

controls within the security planning framework developed for the 1997 security plan.

The Library has integrated preservation and inventory management and tracking controls within the five tiered framework of risk first published in the Library's 1997 plan. The Office of Security and Emergency Preparedness, in coordination with the Collections Security Oversight Committee, has drafted and is currently coordinating a Collections Security Strategic Plan that formally incorporates preservation, inventory management, and physical security controls. The strategic plan, once approved, will supersede the 1997 plan.

4) We have disclosed all significant deficiencies in the design or operation of the internal control structure that could adversely affect the Library's ability to meet the internal control objectives and have identified those we believe to be a material weakness.

  
Donald L. Scott  
Deputy Librarian of Congress

# THE LIBRARY OF CONGRESS

## REPORT OF INDEPENDENT AUDITORS



UNITED STATES GOVERNMENT

LIBRARY OF CONGRESS

**Memorandum**

*Office of the Inspector General*

**TO:** James H. Billington  
Librarian of Congress

February 22, 2005

**FROM:** Karl W. Schornagel  
Inspector General

A handwritten signature in black ink, appearing to read "Karl W. Schornagel".

**SUBJECT:** Results of the Library of Congress FY 2004 Financial Statements Audit

We contracted with the independent public accounting firm of Kearney & Company to audit the financial statements of the Library of Congress as of September 30, 2004. Attached is a copy of their report. The contract required that the audit be done in accordance with generally accepted government auditing standards (GAGAS), OMB's Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, and the GAO/PCIE *Financial Audit Manual*. A separate report (also attached) addresses Library management's assertion about the effectiveness of internal control over safeguarding collection assets. We are pleased to report, for the ninth consecutive year, that in the auditor's unqualified opinion the financial statements, including the accompanying notes, present fairly, in all material respects, the financial position of the Library of Congress in conformance with U.S. generally accepted accounting principles (a "clean opinion").

In its audit, Kearney & Company found that:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- The Library of Congress had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, however, there were reportable conditions which are discussed below;<sup>1</sup>
- There was one occurrence of noncompliance with laws and regulations tested that is discussed below.

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<sup>1</sup> According to federal financial audit criteria, audit findings are classified as to their significance. A "reportable condition" in the auditor's opinion represents a deficiency in the design or operation of an internal control which could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with assertions made by management in the financial statements. A "material weakness" represents a more serious condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

## **Internal Control Over Financial Reporting**

There are no material weaknesses in internal control over financial reporting, although there are two reportable information technology-related deficiencies that could adversely affect the Library's ability to meet its financial management objectives.

First, security practices over information technology systems need to be improved by implementing an entity-wide security program consistent with Federal Government best practices. Specific needed improvements include performing formal periodic risk assessments, developing a standard methodology and related procedures for conducting certification and accreditation of systems, and developing Information Technology security plans for each system. Although the Library has issued a policy for information technology security, it has not fully implemented the policy or developed an overall security plan. Enhancements to the policy are necessary including the definition of security roles and the responsibilities of resource owners, users, senior management, and security administrators.

Second, although the Library has initiated development of a Continuity of Operations Plan (COOP) and a Disaster Recovery Plan (DRP), it has not implemented or tested the plans. Review of the COOP with Information Technology Services indicated that certain necessary elements are missing. Specifically, the DRP did not include provisions for the core financial system and a subsequent examination of the systems inventory listing indicated that the core financial system was categorized as "Tier 3", providing for recovery as resources are available. Kearney & Company recommends elevating the recovery status of the core financial system to ensure the Library's ongoing operations are not negatively affected during an emergency period. The COOP and DRP should be updated and enhanced using National Institute of Standards and Technology Special Publication 800-34, *Contingency Planning Guide for Information Technology Systems*.

## **Compliance With Laws and Regulations**

There was one reportable instance of noncompliance. During FY 2004 and 2003, the Library was not in compliance (as reported by the Office of Compliance) with the Congressional Accountability Act of 1995, requiring maintenance of specified safety standards.

## **Management's Assertion About the Effectiveness of Internal Control Over Safeguarding Collection Assets**

Although the valuation of the collection of heritage assets is not reported in the Library's balance sheet, the assets represent an important stewardship responsibility requiring a system of internal control to ensure accountability. To this end, the Library includes in Section 3 of these financial statements a stewardship report, and makes an assertion in Section 4 about the effectiveness of the internal control over collection assets.

The auditors evaluated internal control over collection assets according to attestation standards<sup>2</sup> by examining on a test basis evidence supporting management's assertion and performing such other procedures as they deemed necessary. The auditors believe that because of the inherent limitations in internal control, unauthorized acquisitions, use, or disposition of collection assets may occur and not be detected, and that the Library fairly represents that it cannot assert that collection inventory controls are fully implemented for the in-processing and in-storage life cycles as of September 30, 2004.

We reviewed Kearney & Company's report and related documentation. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, opinions on the Library of Congress' financial statements or internal control; or conclusions on compliance with laws and regulations. Kearney & Company is responsible for the attached auditor's report dated February 3, 2005 and the conclusions expressed in the report. Our review disclosed no instances where Kearney & Company did not comply, in all material respects, with GAGAS.

The Office of the Inspector General appreciates the courtesies and cooperation extended to the independent auditors and to our staff during the audit.

#### Attachments

cc: Deputy Librarian  
Chief Financial Officer

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<sup>2</sup> The auditors' evaluation of internal control over collection assets took the form of an attestation engagement rather than an audit as defined by the American Institute of Certified Public Accountants. This type of engagement involves the application of a reasonable level of examination to "attest" to the assertion about internal control made by management. Forming an opinion on internal control is not formally part of the audit of the financial statements because collection assets are not reported on the balance sheet.

## Independent Auditor's Report

Inspector General, Library of Congress

We have audited the accompanying consolidated balance sheet of the Library of Congress (Library) as of September 30, 2004, and the related consolidated statements of net costs, changes in net position and financing, and combined statement of budgetary resources for the year then ended. These consolidated financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

### SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that the Library's consolidated financial statements for the year ended September 30, 2004 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting disclosed no material weaknesses. The following items were identified as reportable conditions:

- Entity-Wide Security Program not implemented
- Comprehensive Continuity of Operations Plan and Disaster Recovery Plan not developed.

The results of our tests of compliance with certain provisions of laws and regulations disclosed an instance of noncompliance, described below, that is required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States:

- Non-compliance with *Congressional Accountability Act of 1995*.

As a result of our examination of management's assertion, which is presented in Section 4, we concluded that management fairly stated the following control weaknesses:

- The Library and management cannot provide reasonable assurance that the internal control structure over safeguarding Heritage Assets against unauthorized acquisition, use, or disposition was completely effective as of September 30, 2004, for all of the Library's collections.

- The Library and management cannot assert that inventory controls are fully implemented during the in-processing and in-storage life cycles for all of the Special Collections, as of September 30, 2004.

The following sections discuss our opinion on the Library's consolidated financial statements, our consideration of the Library's internal control over financial reporting, our tests of the Library's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

## **OPINION ON FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheets of the Library as of September 30, 2004, and 2003, and the related consolidated statements of net costs, changes in net position and financing, and combined statement of budgetary resources for the year then ended. These consolidated financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Library of Congress as of September 30, 2004, and 2003, and its net costs, changes in net position, budgetary resources, and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1R to the financial statements, the Library changed its accounting principle related to the purchase of cassette machines in the National Library Service for the Blind and Physically Handicapped program in fiscal year 2003.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements referred to in the first paragraph. The information in the Management's Discussion and Analysis and the Stewardship Report is not a required part of the Library's consolidated financial statements, but is considered supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency*

*Financial Statements.* We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information; however, we did not audit this information and we express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the Library's internal control over financial reporting by obtaining an understanding of the Library's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. We noted certain matters discussed in the following paragraphs involving internal control and its operations that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

### **1. ENTITY-WIDE SECURITY PROGRAM**

The Library of Congress has not implemented an Entity-Wide Security Program. As part of an Entity-Wide Security Program, the Library has not performed formal periodic risk assessments, conducted a certification and accreditation of systems, or developed Information Technology (IT) security plans for each system. While the Library has issued Library of Congress Regulation (LCR) 1620, "*Information Technology Security Policy of the Library of Congress*," which requires risk management throughout the

system life cycle, triennial certification and accreditation of all systems, and IT Security Plans, the Library has not fully implemented the policy or developed an overall plan, procedures, or security structure to implement, enforce, and monitor LCR 1620. Although LCR 1620 addresses responsibilities of the Librarian, Deputy Librarian, Chief Information Officer, Information Technology Services (ITS) Director, Office of Security and Emergency Preparedness Director, and the individual Service and Infrastructure Units, the policy does not define security roles and responsibilities of information resource owners and users, senior management, security administrators, or the information system security officer, as best practices recommends.

Best practices, which would help ensure compliance with LCR 1620, indicate that an entity-wide program for security planning and management is the foundation of an entity's security control structure and is a reflection of senior management's commitment to addressing security risks. The program should establish a framework and continuing cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures.

The Library's failure to develop a clear plan to implement, enforce, and monitor LCR 1620 and related directives is jeopardizing resources. Without a well designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources. In addition, the Library may not become aware of policy and procedural violations in a timely manner, which increases the risk to availability, confidentiality, and integrity of IT resources.

We recommend that the Library develop a plan to implement, enforce, and monitor compliance with LCR 1620 and related directives. In addition, we recommend that the Library create all necessary directives. For example, the LCR requires incident response capabilities, but the Library has not yet developed the directive for this requirement. To assist the Library in this effort, we recommend that the Library use the National Institute of Standards and Technology (NIST) Special Publications (SP) to develop, implement, and monitor the IT Security Program and related plans. To implement the entity-wide security program, we recommend that the Library follow practices employed by leading organizations, as the Government Accountability Office indicates in Appendix VIII of the Federal Information Systems Control Audit Manual. These steps include:

- Policy Development: The security objective and core principles provide a framework for the first critical step for any organization - developing a security policy.
- Roles and Responsibilities: For security to be effective, it is imperative that individual roles, responsibilities, and authority are clearly communicated and understood by all.

- Design: Once a policy has been approved by the governing body of the organization and related roles and responsibilities assigned, it is necessary to develop a security and control framework that consists of standards, measures, practices, and procedures.
- Implementation: Once the design of the security standards, measures, practices, and procedures has been approved, the solution should be implemented on a timely basis, and then maintained.
- Monitoring: Monitoring measures need to be established to detect and ensure correction of security breaches, such that all actual and suspected breaches are promptly identified, investigated, and acted upon, and to ensure ongoing compliance with policy, standards, and minimum acceptable security practices.
- Awareness, Training, and Education: Awareness of the need to protect information, training in the skills needed to operate them securely, and education in security measures and practices are of critical importance for the success of an organization's security program.

We should note that developing, implementing, and monitoring an entity-wide IT Security Program typically takes approximately three to five years. Using a well thought out plan and security program structure will assist the Library in minimizing the time.

In addition, we recommend that the Library perform a comprehensive high-level risk assessment plan that would identify and consider all threats and vulnerabilities, identify greatest risks, and include appropriate decisions to mitigate or accept the risks identified.

We recognize that the Library implemented a policy to conduct certification and accreditation (C&A) of all new systems that the Library implements. However, we recommend that the Library develop a standard methodology and related procedures to perform these C&A activities and develop a plan to incorporate existing systems into the C&A process. Without performing the necessary C&A activities on the general support systems and major applications, the Library may unknowingly be operating with severe risks to the IT systems and associated data.

## **2. COMPREHENSIVE CONTINUITY OF OPERATIONS PLAN AND DISASTER RECOVERY PLAN**

The Library has initiated development of both a Continuity of Operations Plan (COOP) and a Disaster Recovery Plan (DRP). Action has not yet been taken to implement or test the plans. The COOP contains many omissions of necessary elements of which the ITS is aware and is working toward completing the COOP. The DRP to which we were provided access did not contain the FFS financial system. However, we later obtained a system inventory listing that considered the core financial systems as a Tier 3, which provides for recovery, as resources are available. While the Library plans to complete, implement, and test both the DRP and COOP in FY 2005, the need to be prepared for disaster and support continuity of operations is critical and should be in place.

Considering that the Library uses the FFS system to process payments as well as maintain required accounting records and associated account balances, we believe the Library has not fully considered the potential impact to their ongoing operations without including the core financial system. We believe the inability to pay vendors and procure goods and/or services within assigned controls in times of emergencies will be detrimental to business operations. Best practices indicate that contingency planning should include the following functions.

- Business Planning: Identify critical functions and set priorities for the resumption of these functions.
- Identify Resources: Identify the resources that support critical functions through analysis by those understanding the functions and the interdependencies among various resources. These resources should include people, processing capabilities, computer-based services, data and applications, physical infrastructure, documents, and paper.
- Time Frame Needed: Identify the time frames in which the resource is needed (e.g., constantly or month-end) and impact of the continued unavailability to the business.
- Develop Scenarios: An organization should anticipate potential contingencies or disasters, which the contingency plan should address.
- Develop Strategies: The selection of a contingency planning strategy should be based on practical considerations, including feasibility and cost. Agencies should use risk assessments to help estimate the cost of options to decide on an optimal strategy.
- Emergency Response: Document the initial actions taken to protect lives and limit damage.
- Recovery: Plan the steps that are taken to continue support for critical functions.
- Resumption: Determine what is required in order to return to normal operations. The relationship between recovery and resumption is important. The longer it takes to resume normal operations, the longer the organization will have to operate in the recovery mode.
- Implementation: Implement the contingency plan. Once the contingency planning strategies have been selected, it is necessary to make appropriate preparations, document the procedures, and train employees. Many of these tasks are ongoing.
- Test and Revise Plan: An organization should test and revise the contingency plan. A contingency plan should be tested periodically because there will undoubtedly be flaws in the plan and in its implementation.

The Library has not fully developed, implemented, and tested the COOP and DRP for contingency planning due to resource limitations and prioritization of other activities. As a result, the Library may not be able to effectively and efficiently continue critical operations in the event of a disaster, either large or small. In addition, the Library may find it necessary to expend a significant amount of resources establishing, recording, and processing all of the transactions that occurred during the interruption when the IT resources were not available.

We recommend that the Library consider updating and further enhancing the COOP and DRP using NIST Special Publication 800-34, *Contingency Planning Guide for Information Technology Systems*, which defines the following seven-step contingency process that an agency may apply to develop and maintain a viable contingency planning program for their IT systems. These seven progressive steps are designed to be integrated into each stage of the system development life cycle.

- Develop the contingency planning policy statement: A formal department or agency policy provides the authority and guidance necessary to develop an effective contingency plan.
- Conduct the business impact analysis (BIA): The BIA helps to identify and prioritize critical IT systems and components.
- Identify preventive controls: Measures taken to reduce the effects of system disruptions can increase system availability and reduce contingency life cycle costs.
- Develop recovery strategies: Thorough recovery strategies ensure that the system may be recovered quickly and effectively following a disruption.
- Develop an IT contingency plan: The contingency plan should contain detailed guidance and procedures for restoring a damaged system.
- Plan testing, training, and exercises: Testing the plan identifies planning gaps, whereas training prepares recovery personnel for plan activation; these activities improve plan effectiveness and overall agency preparedness.
- Plan maintenance: The plan should be a living document that is updated regularly to remain current with system enhancements.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

The management of the Library is responsible for complying with laws and regulations applicable to the Library. As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, non-compliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Library.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed an instance of non-compliance, described below, with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

- The Library was not in compliance with the *Congressional Accountability Act of 1995* (CAA). In the CAA, Congress made its facilities and employees subject to the same safety laws that applied outside the Legislative Branch. In 1997, other provisions of the CAA applied fire safety standards to Congressional buildings,

including the Library. The Office of Compliance conducted a year long fire safety investigation that culminated in a report issued in January 2001 that identified numerous safety hazards in the Library's three Capitol Hill Buildings.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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This report is intended solely for the information and use of the Library of Congress Office of Inspector General, management of the Library, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

  
February 3, 2005

**Independent Accountant's Report**

We have examined management's assertions, which are presented in Section 4, that the Library cannot provide reasonable assurance that the Library of Congress' internal control structure over safeguarding of collection assets against unauthorized acquisition, use, or disposition was effective as of September 30, 2004. The control criteria include; bibliographical, inventory, preservation, and physical security controls as set forth in management's assertion. The Library's management is responsible for the assertion. Our responsibility is to express an opinion on the assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting management's assertion and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in internal controls, unauthorized acquisitions, use or disposition of collection assets may occur and not be detected. Also, projections of any evaluation of internal controls over safeguarding of assets to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion, which is presented in Section 4, is fairly stated, in all material respects, based upon the control criteria; bibliographical, inventory, preservation, and physical security controls. In addition, management's assertion that Library Collection inventory controls were not fully implemented during the in-processing and in-storage life cycles, as of September 30, 2004, is fairly stated based upon the criteria described above.



February 3, 2005

# Memorandum

**Library of Congress**  
**Office of the Librarian**  
*Deputy Librarian*

TO : Karl Schornagel  
Inspector General

FROM :   
Deputy Librarian

SUBJECT : Comments on the Audit of the Library of Congress

Thank you for the opportunity to review and comment on our audit report of the Library of Congress' consolidated financial statements for FY 2004 and FY 2003. The audit report makes many good recommendations, and the Library is taking steps to address these recommendations.

I am pleased that the audit report reflects the Library's plans to complete, implement and test our Continuity of Operations Plan and Disaster Recovery Plan in FY 2005 and, ultimately, resolve this long-standing issue. For the ninth consecutive year, the Library has received an unqualified audit opinion on the consolidated financial statements.

We recognize that there is still much work to be done, especially in the areas of computer and collections security. We look forward to the challenge and to working cooperatively with your office and the Congress in continuing to improve the accountability of the Library's resources.